

Examination Report  
of  
The White Pine Historical Railroad Foundation, Inc.

Report of Larry L. Bertsch, CPA & Associates LLP  
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## **Assignment**

On August 21, 2014, the City Council of Ely, Nevada; Mayor of Ely, Nevada; and the Board of Trustees of the White Pine Historical Railroad Foundation, Inc., (collectively the “City of Ely, Nevada” or “Client”) engaged Larry L. Bertsch, CPA & Associates, LLP (“Bertsch Firm”) as a consultant in connection with the examination of the financial affairs of the White Pine Historical Railroad Foundation, Inc. (the “Examination”).

On August 21, 2014, the Board of Trustees of the White Pine Historical Railroad Foundation, Inc. (the “Foundation”), provided the Bertsch Firm with a list containing the list of concerns for examination. The four areas of concern are as follows:

- A. Nomenclature Questions**
- B. Availability of Records**
- C. Propriety of, or Compliance with Standard Accounting Practices**
- D. Potential Threats to Nonprofit Status**

In addition to the above areas of concern, this report focuses on various findings relating to the Foundation’s: Structure & Governance, Internal Controls, Accounting, and Segregation of Grants. In addition to the findings, our report suggests various recommendations for the Foundation to implement in order to assist in the efficiency and effectiveness within these areas.

The following report is based upon our examination and analysis of the books and records produced relating to the four areas of concern listed above. The Bertsch Firm reserves the right to update this report upon the production of further documentation and/or evidence. Other than the audits identified in this report, the financial statements utilized for this examination have not been subject to a compilation, review, or audit engagement by the Bertsch Firm, therefore we cannot guarantee the adherence with Generally Accepted Accounting Principles.

## **Background**

The Foundation incorporated in the State of Nevada on November 8, 1984. The Foundation received Internal Revenue Code 501(c)(3) tax-exempt status in 1985. The Foundation operates the Nevada Northern Railway Museum (the “Museum”).

The Foundation’s annual tax return describes its mission as:

“The primary purpose is to increase public awareness and appreciation for the history of the White Pine County, Nevada. This is accomplished through the use of historic steam train rides and a museum dedicated to maintaining and preserving an integral part of its illustrious past.” (White Pine Historical Railroad Foundation, Inc., 2014).

Our examination allowed us the opportunity to view the importance of the Foundation to the City of Ely, Nevada. Whether it be through flyers, discussions with locals or the local newspaper, one can see that the Foundation is a staple of the community and defines the history of this rural Nevada town.

As with any organization, problems often arise that can be solved through changes to its policies and procedures. A deficiency within an organization’s policies and procedures only exacerbates the problem and prolongs reaching a solution. It is incumbent upon the organization’s directors and trustees to examine its policies and procedures to develop a solution.

Our examination found there to be disagreements between the City Council and the Foundation’s Management Board and the Executive Director, Mark Bassett (“Bassett”). Although we cannot pinpoint as to when the disagreements began, we believe we have an understanding of each side’s position as well as the significance of both parties to solve their disagreements.

## Areas of Concern

### I. Internal Controls

In order to address internal controls, it is important to understand the definition. The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) is a leading authoritative body when it comes to internal controls. COSO’s mission is, “to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.” (Committee of Sponsoring Organizations, 2015).

In 2009, President Obama established the Financial Fraud Task Force (“FFTF”) which is comprised of “more than 20 federal agencies, 94 US Attorney’s Offices and state and local partners, it’s the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud”<sup>1</sup>. In 2012, the FFTF released a document titled, *Reducing Grant Fraud Risk: A Framework for Grant Training*. The purpose of the document: “is to provide a framework for training grant administrators and recipients of federal grant funds on practices for reducing the risk for grant fraud” (Financial Fraud Enforcement Task Force, 2012, p. 1).

The FFTF document is included in this Examination is that it sets forth a framework of how to administer grants in general. The administration and accounting for each grant is largely dependent on the type of grantor.

The lack of proper internal controls, such as separation of duties [emphasis added], or unsupervised use of checking accounts, cash, debit, or credit cards that does not require supervisory approval, may indicate a heightened risk for misuse of grant funds. (Financial Fraud Enforcement Task Force, 2012, p. 14).

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<sup>1</sup> <http://www.stopfraud.gov/about.html>

COSO broadly defines internal control as:

a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations.
2. Reliability of financial reporting.
3. Compliance with applicable laws and regulations.

(Committee of Sponsoring Organizations', 2015).

The FFTF addresses systematic measures to help organizations receiving grant funds set up a well-developed internal control system. The following is a short excerpt of each basic control listed by the FFTF:

Adequate Monitoring. Grant recipients should monitor the grant work on a regular basis, as this will help prevent mismanagement. Discrepancies discovered as a result of monitoring activities should be examined in a timely manner and any mismanagement concerns should be resolved quickly. Grant recipients must maintain documentation of expenses incurred and documented proof of site visits of contractors and sub-grant recipients.

Formal Organizational Documents. The structure of the organization should be explicitly documented. Qualifications for members of Boards of Directors should be formally approved to help ensure qualified individuals provide direction for the organization. Board meetings should be memorialized in meeting minutes that identify key decisions to help ensure organization officials can easily refer to decision items and requirements, and provide some continuity for future administering officials. In addition, grant recipients should maintain an updated organizational chart establishing clear lines of responsibility and authority to help ensure efficient operations.

Formal Written Policies. Formal written policies setting forth procedures help ensure operational effectiveness and efficiency by providing written guidance to which grant recipients and other officials can refer. The policies should be adequately written to ensure officials have clear and relevant guidance for the completion of duties and responsibilities. Written policies enable grant administrators to provide appropriate oversight over the life of a grant, and help ensure effective continuity of operations in case of personnel turnover.

Reconciliations. Grant recipients should perform reconciliations in order to ensure grant activity is accurately recorded and reported and to help prevent and detect fraud. At a minimum, periodic and frequent reconciliations should be performed for bank statements, accounting records, checks for payment, credit card statements, grant drawdowns, Federal Financial Reports submitted to federal agencies, and other grant-related administrative and programmatic activity.

Separation of Duties. Separation of duties ensures that one person cannot act without someone else being able to check on that person's actions to help prevent fraud and mismanagement. No single individual should conduct all aspects of financial management, such as entering data in the accounting system, having signatory authority, conducting reconciliations, or performing key grant functions.

Supervisory Review and Approval. Grant recipients should require supervisory review and approval of expenditures, as well as key programmatic and administrative activities. It should be difficult to override a control or such supervisory approval. If control overrides are allowed to occur, grant recipients should implement a policy for multiple approvals and checks.

(Financial Fraud Enforcement Task Force, 2012, pp. 30-33).

Internal Controls containing deficiencies are reported within the annual audits of the Foundation. The following are excerpts from the past audits of the Foundation relating to internal controls:

- On December 5, 2011, in its 2010 audit, Hinton, Burdick, Hall & Spilker, PLLC indicated:  
“The Foundation’s internal control processes lack a complete segregation of duties. The same individual records disbursements and receipts, makes deposits, and prepares the bank reconciliations”

- On November 13, 2013, in its 2012 audit Hinton Burdick, PLLC (“Hinton Burdick”) indicated the following:

Segregation of Duties – The Foundation’s internal control processes lack a complete segregation of duties. The same individual records disbursements and receipts, makes deposits, and prepares the bank reconciliations.

Cash Receipts Documentation – While performing our test work, we observed that the documentation for several cash receipts was non-existent or incomplete. While we were able to trace deposits to the bank statements, it was difficult to identify the source of the funds. Proper cash receipt documentation can help ensure cash received is properly safeguarded and accurately recorded.

Designated Cash Reserves – At December 31, 2012, \$105,074 of the Foundation’s deferred revenue consists of grant money and other designated contributions to the Foundation that are to be spent on specific purposes. This money should be set aside and only used for the designated purpose. The Foundation’s cash balance at December 31, 2012, was only \$30,233. Thus, the designated cash is being borrowed to pay for other expenditures of the Foundation



Related Party Loans Approvals – At times, the executive director will personally pay for the Foundation’s expenses and a loan to the executive director is recorded on the Foundation’s books. In order to strengthen controls over this related party loan, the Management Board should preapprove any purchases the executive director personally pays for.  
(HintonBurdick CPAs & Advisors, 2013)

- On January 9, 2015, Bassett provided us with an unsigned letter dated January 10, 2014, from Hinton Burdick. The letter indicates the following:

We have considered whether the proposed procedures in the attached documents will adequately address the material weakness that was reporting (*sic*) in the 2012 audit. Since the procedures were not implemented until 2014, the material weakness will most likely be reported again in the 2013 audit. However, at the present time, we believe that the procedures that you proposed in the attached documents to resolve this finding, if implemented and followed, will most likely resolve the segregation of duties issue in the 2014 audit.

## **Recommendations**

We propose the following recommendations regarding the Internal Control deficiencies presented in the 2010 and 2012 annual audits:

- The Executive Director of the Foundation should create a written remediation plan for each deficiency (“Remediation Plan”). Each deficiency should fall within the following categories:
  - Policy and procedures – can the deficiency be fixed by: improving documentation; improving lines of authority and/or segregation of duties; updating/upgrading the information systems, or a combination of each;
  - Personnel – can the deficiency be fixed by adding additional staff and/or adding experienced staff;
  - Training - can the deficiency be fixed by investing in training for the current staff and volunteers, and orientation training for new hires/volunteers
  - Board procedure - can the deficiency be fixed by making a change to the Board of Trustees, such as adding an audit committee.
- The Remediation Plan should include a detailed description of steps the Executive Director plans to implement in order to remediate each deficiency;
- Once the Remediation Plan has been drafted, the Management Board should review the plan for approval. If not approved, the Remediation Plan shall be returned to the Executive Director with instructions.
- Once the Remediation Plan has been approved, the Management Board should present the Remediation Plan to the Board of Trustees for approval; If not approved, the Remediation Plan shall be returned to the Management Board with instructions.
- Once approved by the Board of Trustees, the Management Board should ensure the Remediation Plan is implemented by the Executive Director;
- The Management Board should set specific deadlines by which the Executive Director shall report that the Remediation Plan is being implemented correctly;
- The Management Board should give a written report to the City Council verifying that the plan is being implemented correctly and of additional changes that might be needed to be made to the Remediation Plan.

## II. Foundation's Structure & Governance

“Organizations with an ineffective or unqualified Board of Directors (Board) may represent a higher risk for grant fraud. For example, a Board that meets infrequently or not at all, does not document meeting minutes or decision items, or does not approve key personnel decisions may indicate that the Board does not provide adequate oversight. Boards of Directors must provide adequate oversight and direction.” (Financial Fraud Enforcement Task Force, 2012, p. 14)

### A. Foundation Governance

The Internal Revenue Service produced a report titled, *Governance and Related Topics - 501(c)(3) Organizations* (“IRS Report”) covering the following six topics:

- Financial statements and Form 990 reporting
- Governance and management policies
- Transparency and accountability
- Governing body
- Mission
- Organizational documents

The opening section of the IRS report states:

“The Internal Revenue Service believes that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets, and serve charitable interests than one with poor or lax governance. A charity that has clearly articulated purposes that describe its mission, a knowledgeable and committed governing body and management team, and sound management practices is more likely to operate effectively and consistent with tax law requirements. And while the tax law generally does not mandate particular management structures, operational policies, or administrative practices, it is important that each charity be thoughtful about the governance practices that are most appropriate for that charity in assuring sound operations and compliance with the tax law. As a measure of our interest in this area, we ask about an organization’s governance, both when it applies for tax-exempt status and then annually as part of the information return that many charities are required to file with the Internal Revenue Service” (Internal Revenue Service, 2012, p. 1).

The 2013 annual *Form 990 - Return of Organization Exempt from Income Tax* contains a section titled, Part VI – Governance, Management and Disclosure. This section contains the following questions and corresponding Foundation answers relating to the above IRS Report categories:

Question #	Question	Foundation Answer
VI(B)(11a)	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	No
VI(B)(11a)	Describe in Schedule O the process, if any, used by the organization to review this Form 990	The Form 990 is reviewed by the Executive Director before filing
VI(B)(12a)	Did the organization have a written conflict of interest policy?	No
VI(B)(13)	Did the organization have a written whistleblower policy?	No
VI(B)(14)	Did the organization have a written document retention and destruction policy?	No
VI(B)(15a)	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision? The organization’s CEO, Executive Director, or top management official	Yes

If an organization answers “yes” to question VI(B)(15a), then the organization is to describe the process in Schedule O. The Foundation’s Schedule O does not contain a description of the process by which it determines compensation.

The IRS Report indicates that the IRS will review if the organization has implemented policies relating to:

• Executive compensation	• Conflicts of interest
• Investments	• Fundraising
• Documenting governance decisions	• Whistleblower claims
• Document retention and destruction	

The Nevada Attorney General Office offers a guide titled *A Guide to Non-Profits*. The guide details the rights and duties along with the Nevada Revised Statutes, concerned with nonprofit organizations. The introduction contains the following:

Directors of Nevada nonprofit corporations are responsible for management of the business and affairs of the organization. This does not mean that the directors are responsible for the day-to-day operation of the nonprofit corporation. Rather, directors are responsible for appointing officers to effectively carry out the daily tasks of running the organization. Directors must supervise and direct the officers, and govern the organization's effort to accomplish its charitable or public purpose. In this regard, the law imposes upon directors the fiduciary duties of care, loyalty and obedience to the law [*emphasis added*] (Nevada Department of Justice, Office of the Attorney General, 2015, p. 2).

It should be noted that the terms “Directors” and “Trustees” are synonymous terms under N.R.S. 82.026. The following are examples of the fiduciary duties of care, loyalty and obedience contained in the *Guide to Non-Profits*:

Duty of Care:

- **Active Participation** - Receive information beforehand about matters upon which you will vote in meetings. Ask questions and use your own judgment. Be aware of, and informed about, every major action taken by the organization. The buck stops with you.
- **Following the Money** - Be involved and informed in all aspects of the finances of the nonprofit organization. Make sure a realistic annual budget is developed. The organization should have an adequate internal accounting system. Require management to produce timely and accurate income and expense statements, balance sheets, and budget status reports. Above all, make certain the funds are being used for the organization's charitable or public purpose. Administrative expenses and promotional expenses, including compensation of employees and independent contractors, must be commensurate with the organization's financial

resources and capabilities. If an organization raises funds for a charitable purpose but consistently uses virtually all its income for administrative and promotional expenses with little or no distribution to the charitable purpose, the board has failed to exercise due care.

- **Records, Records, Records** - Be familiar with the contents of the organization's books and records, including the articles, bylaws, accounting records, and minutes. Written minutes should be taken at every board meeting. Minutes must accurately record the votes cast and identify the names of those in the minority on any question. Minutes should be signed, circulated to the board members for review, and presented for approval. Financial records should be regularly audited by an independent accountant to ensure accuracy.
- **Forming Committees** - Unless otherwise provided in the articles or bylaws, directors may establish committees which exercise the powers of the board in a manner consistent with resolutions or bylaws. At least one director must be a committee member. NRS 82.206.
- **Conducting Investigations** - Investigate warnings or reports of theft or mismanagement by officers or employees of the organization.
- **Knowing your Rights** - You have the right to obtain the information necessary to enable you to carry out your responsibilities as a director. You have the right to reasonable access to management. You have the right to inspect the internal information of the organization. Under NRS 82.186, directors are entitled to inspect the books of account and all financial records during normal business hours. This right may be enforced in court as long as the director has given at least five days written demand to access the information and will use the information for a purpose related to the role as director.

#### Duty of Loyalty:

- **Avoid Detrimental Conflicts of Interest.** A red flag should fly when board members are asked to approve a contract or transaction with a director, a director's family member, or a business in which a director has a financial interest. Before voting on the transaction, the interested board member should fully disclose his or

her financial interest to the entire board. The board should only approve the transaction if it is clearly in the best interests of the nonprofit organization. As a further precaution, the interested director should abstain from discussion of, and voting on, the matter.

- **Establish a Written Policy.** The board should establish a written policy for dealing with conflicts of interest. The policy should address disclosure of financial interests and withdrawal from discussion and voting by the interested director. Due to the sensitivity of conflicts of interest, the board may want to require that transactions benefiting a director may be approved only by a greater than majority vote or prohibit such transaction all together. Also, requiring an annual disclosure by all board members of their business involvement with the nonprofit organization is recommended.
- **Misuse of Corporate Information.** Directors cannot use information, documents, records or other data obtained from the nonprofit organization for a purpose unrelated to the organization's interest. For example, a director breaches the duty of loyalty by selling the organization's donor list for personal gain. A misappropriation of corporate information may subject the director to criminal liability under NRS 82.186(3).

#### Duty of Obedience:

- **Obey State and Federal Statutes.** Directors should be familiar with state and federal laws relating to nonprofit organizations, charitable solicitations, sales and use taxes, FICA and income tax withholdings, and workers' compensation obligations. Detailed information of Nevada's law governing charitable solicitations and lotteries follows this section. Directors should also be aware of the requirements of the Internal Revenue Service to protect the organization's tax exemption status.
- **Meet Filing Requirements.** Comply with the deadlines for filing tax returns, paying income tax withholdings, making social security payments, registering with the Secretary of State's Office, and so on.

- **Comply with Governing Documents.** Know and adhere to the provisions in the organization's articles of incorporation and bylaws. Make sure the board is regularly holding meetings, receiving proper notice of the meeting, and following the procedures for voting on matters.
- **Seek Outside Help.** To ensure compliance with the law, board members should obtain the assistance of legal counsel, accountants or other qualified people.  
(Nevada Department of Justice, Office of the Attorney General, 2015, pp. 4-10)

*B. Foundation Structure*

On February 18, 2015, Jennifer Lee (“Lee”), Deputy City Clerk for the City of Ely, Nevada produced a copy of the *By-laws of the White Pine Historical Railroad Foundation, Inc.* (“Foundation By-laws”) to us. In addition to the Foundation By-laws, Lee produced a copy of the minutes for the May 10, 2012, *Regular Meeting of the Ely City Council* (“5/10/12 Minutes”) as the meeting dealt with the approval of the Foundation By-laws. It should be noted that the copy of the Foundation By-laws produced by Lee is not signed by any member of the “White Pine Foundation Management Board” or “Nevada Northern Railway Board of Trustees”. Although not signed, the copy is utilized in this section of the report to further demonstrate the structural issues of the Foundation.

SECTION 2.01. Trustees of the Foundation By-laws states the following:

“The Exercise of the powers of the Corporation, with the right to delegate to offices and agents to performance of duties in the exercise of powers, shall be vested in the Board of Trustees.”

Article III of the Foundation By-laws refers to the Management Board. SECTION 3.01. General Powers of Article III states the following:

“The Affairs of the Corporation shall be managed by its Management Board.”



The signature block contained on page 5 of Foundation By-laws requires the signature of the “White Pine Foundation Management Board” and “Nevada Northern Railway Board of Trustees”. It is unclear as to who the “Nevada Northern Railway Board of Trustees” refers to as the phrase is not contained anywhere else within the copy of the Foundation By-laws. However, the 5/10/12 Minutes includes the phrase, “Nevada Northern Railway Board of Trustees” on numerous occasions. It is unknown as to why the Foundation Board of Trustees is not referred to as “The White Pine Historical Foundation, Inc. Board of Trustees”.

The 2012 audit performed by Hinton Burdick, the Foundation’s organization is as follows:

“White Pine Historical foundation, Inc. (the “Foundation”), a component unit of the City of Ely, Nevada, was established in 1983, as a nonprofit organization to receive, administer and develop an operating tourist railroad museum. The Foundation operates as the Nevada Northern Railway Museum (the “Museum”). The Foundation is dedicated to the preservation of the historical character of the Nevada Northern Railway facilities and railroad equipment.

The Foundation’s Board of Trustees are composed of the City Council of the City of Ely, Nevada. The City Council, in performance of their duties as Trustees, appoints a five-member management committee to run the day-to-day operations of the Foundation and Museum. The City Council, in its ex-officio capacity, has ultimate responsibility for all of the Foundation’s assets and liabilities [*emphasis added*]” (HintonBurdick CPAs & Advisors, 2013, p. 9).

The organizational statement by Hinton Burdick contains crucial information relating to the current structure of the Foundation. These two pieces of information are listed below:

- I. “The City Council, in performance of their duties as Trustees, appoints a five-member management committee to run the day-to-day operations of the Foundation and Museum.”
- II. “The City Council, in its ex-officio capacity, has ultimate responsibility for all of the Foundation’s assets and liabilities [*emphasis added*]”

According to item II, the City Council is responsible for all transactions occurring within the Foundation. To assist in the oversight of the Foundation’s day-to-day operations, the City Council appoints a five-member “Management Committee.”

*Table 1* depicts our understanding of the current structure of the Foundation:

*Table 1*



**Findings:**

Below is a description of the findings regarding the structure and governance of the Foundation:

- The Foundation reports through their annual *Form 990 - Return of Organization Exempt from Income Tax*, that they do not have a policy for the following:
  - Conflict of interest
  - Whistle Blower
  - Document retention and destruction policy
- The governing body of the Foundation does not receive a copy of the annual Form 990 of the Foundation prior to filing;
- The process used by the Foundation in reviewing their annual Form 990 does not include the review by Management Board or the Board of Trustees;

- The Foundation lacks a clear set of roles and responsibilities of the Board of Trustees;
- The Foundation lacks a set of roles and responsibilities of the Management Board;
- The Foundation lacks a set of roles and responsibilities of the Executive Director;
- Breakdown of formal line of communications between Foundation levels.

**Recommendations:**

We propose the following recommendations regarding the structure of the Foundation:

- The Foundation’s Board of Trustees and Management Board should create a policy for:
  - Conflicts of interest;
  - Whistle Blower protections; and
  - Document retention and destruction policy
- The Management Board and Board of Trustees should review the annual *Form 990 - Return of Organization Exempt from Income Tax* prior to filing. Any questions and/or comments should be addressed prior to filing.
- The City Council should create and adopt a written list of the roles and responsibilities for the following Foundation layers (an example is included to this report as **Exhibit A**):
  - Board of Trustees;
  - Management Board;
  - Executive Director;
- All layers of the Foundation should be informed to the roles and responsibilities for each layer. This will inform each layer of the Foundation as to the responsibilities of all;
- The City Council should create and adopt a formal procedure for communication between each layer. Such procedures should include the following:
  - The process of how each layer can report positive/negative issues concerning the Foundation to other layers;
  - The process of how each layer should request information from the other layers;
  - How to keep each layer informed as to the activities of each other layer.

### III. Great Basin and Northern Railroad, Inc.

Schedule R, Part IV of the 2010, 2011, 2012, and 2013 *Form 990 Return of Organization Exempt from Income Tax* filed with the Internal Revenue Service, the Foundation reported that it “had one or more related organizations treated as a corporation or trust during the tax year”. The following is a description of the information contained in Schedule R, Part IV:

- (a) Name, address, and EIN of related organization – GREAT BASIN AND NORTHERN RAILROAD, INC. P.O Box 150040, ELY, NV 89315 NONE
- (b) Primary activity – CLASS III RAILROAD AUTHORIZED BY THE STB
- (c) Legal domicile (state or foreign country) – NV
- (d) Direct controlling entity – N/A
- (e) Type of entity (C corp, S corp, or trust) – CORP
- (f) Share of Income – 0
- (g) Share of end-of-year assets – 0
- (h) Percentage ownership – 100.00
- (i) Sec 512(b)(13) controlled entity? – No

The Nevada Secretary of State (Nevada Secretary of State, 2015) indicates an entity was created using the name “Great Basin & Northern Railroad, Inc.” (“GB&N”) on May 10, 2004. The Registered Agent for GB&N is listed as Gary D Fairman. The following individuals are listed as Officers of GB&N:

- Director – Mark Bassett
- Treasurer – Randy Larson
- Secretary – Randy Larson
- President – Steve Leith

On October 17, 2014, our office emailed a list containing the summary of requests relating to the Examination (the “10/17/14 Request”) to Sam Hanson and Melody VanCamp.

**Image 1**, located on the following page, is an excerpt from the 10/17/14 Request relating to Great Basin:

## Image 1

### **Great Basin and Northern Railroad**

- I. Copy of QuickBooks file or other accounting software utilized
- II. Copies of following bank documents for the period of January 2013 through July 2014
  - a. Account Statements
  - b. Copies of cancelled checks
  - c. Letters of Authorizations or Wire Authorizations
  - d. Deposit slips
  - e. Signature Cards
- XI. Articles of incorporation
- XII. By-laws
- XIII. All Board Minutes from incorporation to present
- XIV. Copies of employment agreements from incorporation to present

On November 17, 2014, the Bertsch Firm received a facsimile from Angela M. Gianoli (“Angela”) of the law firm Gianoli Husbands PLLC (“Gianoli Husbands Firm”). The facsimile from Gianoli Husbands Firm contained correspondence relating to the following:

“This letter serves to memorialize the telephone conversation we had on Tuesday, October 21, 2014 regarding the letter sent from Mayor Melody VanCamp to Mr. Gianoli requesting various financial documentation of the White Pine Historical Railroad Foundation, Great Basin and Northern Railroad and General Requests”.

The facsimile provides responses to the items within **Image 1** and are contained below and on the following page.

#### **Request I: Copy of QuickBooks file or other accounting software utilized**

Gianoli Husbands Firm response: “To the knowledge of the current Foundation Management Board and Executive Director, no such files exist”

**Request II: Copies of following bank documents for the period of January 2013 through July 2014**

- a. **Account Statements**
- b. **Copies of cancelled checks**
- c. **Letters of Authorizations or Wire Authorizations**
- d. **Deposit slips**
- e. **Signature Cards**

Gianoli Husbands Firm response: “To the knowledge of the current Foundation Management Board and Executive Director, no such files exist”

**Request XI: Articles of incorporation**

Gianoli Husbands Firm response: “This information can be obtained from the Secretary of State. Mr. Bassett will attempt to obtain a copy of these documents as well.”

**Request XII: By-laws**

Gianoli Husbands Firm response: “This information can be obtained from the Secretary of State. Mr. Bassett will attempt to obtain a copy of these documents as well.”

**Request XIII: All Board Minutes from incorporation to present**

Gianoli Husbands Firm response: “In speaking with Mr. Bassett, there are very few board minutes, but he has no issues providing any copies for minutes that are available.”

**Request XIV: Copies of employment agreements from incorporation to present**

Gianoli Husbands Firm response: “To the knowledge of the current Foundation Management Board and Executive Director, no such agreements exist.”

During a meeting on November 19, 2014, Bassett provided Bertsch Firm with a copy of the following GB&N documents:

- Articles of Incorporation;
- Initial List of Officers, Directors and Resident Agent;
- Annual List of Officers, Directors and Agents for the period of May 2005 through May 2014;
- Employer Identification Number for Great Basin and Northern Railroad Inc.;
- *Agreement to Assign Track Miles for purposes of the credit under section 45G of the Internal Revenue Code* dated December 26, 2012, between the Foundation and GB&N as “Assignors” and Montana Rail Link, Inc. as “Assignee”;
- *Agreement to Assign Track Miles for purposes of the credit under section 45G of the Internal Revenue Code* dated December 16, 2013, between the Foundation and GB&N as “Assignors” and Montana Rail Link, Inc. as “Assignee”;
- Minutes of the Foundation Management Committee meetings held on the following dates:
  - June 30, 2003 (2 pages)
  - September 29, 2003 (2 pages)
  - October 27, 2003 (2 pages)
  - November 24, 2003 (3 of 4 pages, missing page 2)
  - December 16, 2003 (3 of 6 pages, missing pages 2, 3 and 4)
  - January 20, 2004 (2 pages)
  - May 3, 2004 (2 pages)
  - June 2, 2004 (1 page)
  - March 14, 2006 (3 of 6 pages, missing pages 2, 3 and 4)
  - May 23, 2006 (2 of 5 pages, missing pages 2, 3 and 4)
  - May 8, 2007 (3 of 4 pages, missing page 2)
  - January 8, 2008 (3 of 13, missing pages 2 through 11)
- Minutes of the Board meeting for the Great Basin & Northern Railroad held on May 23, 2005 (1 page)

**Image 2** is an excerpt from the January 20, 2004 minutes of the Foundation Management Committee relating to the GB&N:

**Image 2**

- F. Update/Action on the Great Basin Railroad including right of way**
- i. It was discussed and decided that it was a good idea to begin plans for the Great Basin Railroad. It was also discussed and decided that wearing two hats will be appropriate. A motion was made to incorporate the Great Basin Railroad. John Gianoli made the motion. Steve Leith seconded the motion. The motion passed unanimously.**
  - ii. It was discussed and decided that we should apply to the Surface Transportation Board for operating authority. This will cost us approximately 2,000 dollars. The board made a motion Steve Leith made a motion to apply to the STB John Gianoli seconded the motion. The motion passed unanimously.**

According to the Surface Transportation Board (“STB”), on May 12, 2004, the Great Basin and Northern Railroad filed a verified Notice of Exemption, pursuant to 49 U.S.C § 10502 and 49 C.F.R § 1150.31(a)(3), (Surface Transportation Board, 2004, p. 2).

The Caption Summary of the May 12, 2004 filing contains the following:

Great Basin and Northern Railroad ("GB&N"), a non-carrier, has filed a Verified Notice of Exemption to change operators on and over approximately 28.8 miles of railroad lines in White Pine County, NV, presently owned by the City of Ely (the "City") and White Pine Historical Railroad Foundation (the "Foundation"). The City and the Foundation have agreed to jointly grant non-exclusive trackage rights to GB&N on and over the railroad lines, so that GB&N may commence and perform common carrier rail operations. The milepost designations for the subject property are as follows: (a) McGill Junction (MP 127.9) to Keystone (MP 146.1); (b) McGill Junction (MP 127.9) to McGill (MP MB 2.6); and (c) Hiline (MP 135.3) to Adverse (MP H-8) (Surface Transportation Board, 2004, p. 9).



**Image 3** is an excerpt from the June 2, 2004 minutes of the Foundation Management Committee relating to the creation of a bank account for the GB&N:

**Image 3**

**4. Adjournment to BOD meeting Great Basin & Northern Railroad**

**a. Discussion/Action on opening a checking account.**

All agreed to set it up and put \$100.00 in the account, also to mimic the Foundation's account so that you need two signatures to have it valid. Scott moves to accept, and John seconds, the motion was accepted by all board members.

**Image 3** contains the names "Scott" and "John". According to the minutes, the following individuals with matching first names were present at the June 2, 2004 meeting: Scott Hase and John Gianoli.

As of the date of this report, it is assumed that the bank account referenced in **Image 3** is no longer open as Bertsch Firm requested bank documents and Gianoli Husbands indicated "To the knowledge of the current Foundation Management Board and Executive Director, no such files exist"

**Image 4** is an excerpt from the May 23, 2005 minutes of the Board meeting for the Great Basin & Northern Railroad relating to expenses of GB&N:

**Image 4**

Ms. Heinbaugh said that then they would talk about the \$125.00 filing fee.  
Mr. Leith stated that they could pool their resources and keep the Foundation out of it.

Mr. Bassett said that the Foundation put \$7,500.00 into this last year. He thinks \$125.00 is well within the budget.

Mr. Leith stated for the record, that all the money that the Foundation has put into this, he would like a full accounting of this, so that at some point in time it can be reimbursed.

Mr. Gianoli thinks that is appropriate. He then asked if a motion was needed to pay the \$125.00.

Mr. Bassett said that this would appear on the register as a normal bill.

On November 18, 2014, Mark Bassett (“Bassett”) produced a copy of the QuickBooks file containing the books of Nevada Northern Railway Museum (“NNRM QB File”). The NNRM QB File contains Museum transactions for the period of January 2006 through November 17, 2014.

The 2013 audit performed by HintonBurdick reports that as of December 31, 2013, the *Statements of Financial Position* for the Foundation contains an asset titled, “Investment - Great Basin Railroad”. The asset had values as of December 31, 2012 and December 31, 2013, of \$8,299. Likewise, the NNRM QB file contains an account listed under “Other Assets” as “193 · Investment - Great Basin RR” (“Account 193”) with a balance of \$8,298.77. The \$8,298.77 balance of Account 193 originated with a General Journal entry on December 31, 2005. No other transactions have occurred in Account 193 since 2005.

#### **Findings:**

Below is a description of the findings regarding the GB&N:

- Incomplete board minutes of GB&N;
- GB&N expenses being paid through Foundation bank accounts;
- GB&N does not maintain a separate QuickBooks file or other electronic file of its books.

#### **Recommendations:**

We propose the following recommendations regarding the GB&N:

- GB&N should open a bank account under its own name and EIN;
- GB&N should prepare an annual budget for presentation to Board of Trustees for approval;
- GB&N should pay for all expenses associated with its own operations;
- GB&N should maintain a separate QuickBooks file for all transactions, whether paid by the Foundation or through GB&N;
- GB&N should maintain a complete set of all minutes for all meetings since incorporation to present and going forward;
- As a subsidiary of the Foundation, the Foundation Board of Trustees should require the GB&N Board of Directors to report on a consistent basis. Said report format should be approved by Foundation’s Board of Trustees.

#### IV. Foundation's Accounting System

In the section titled Reducing Grant Fraud Risk, the FFTF provides a description of “red-flags” or indicators that the organization or individual is at a heightened risk for fraud. According to the FFTF:

“These indicators by themselves do not prove that fraud is occurring; however, recipients and employees exhibiting these indicators should be monitored closely to ensure grant funds are used properly, and indicators may draw attention from investigators. Recipients and employees that exhibit more than one indicator are at higher risk for fraud.” (Financial Fraud Enforcement Task Force, 2012, p. 14)

The FFTF describes a “red-flag” that the organization or individual is at a heightened risk for fraud when: “A recipient that has questionable financial viability, such as a high percentage of assets funded by debt or insufficient cash flow [*emphasis added*], may indicate a higher risk.” (Financial Fraud Enforcement Task Force, 2012, p. 14).

It should be noted that this report does not allege that fraud has occurred or is occurring, but that a breakdown or absence of internal controls harbors an environment for fraud to occur. Once a breakdown or absence of internal controls is identified, the appropriate actions should be adopted by the Board of Trustees and Management Board to ensure that the internal control is corrected.

##### A. Deficit QuickBooks Bank Account Balances

Our examination of the NNRM QB File discovered that during 2013 and 2014, the General Checking Account ran a deficit balance for extended periods of time. The future of the Foundation rests on its ability to control cash flow. **Table 2** and **Table 3** indicates a significant cash flow problem which should be addressed immediately. Deficits within any bank account not only indicates a breakdown within the management of the Foundation's finances, but costs the Foundation money in the form of bank charges due to “Non-Sufficient Funds” (“NSF”).

During 2013, the General Checking Account ran a deficit balance for approximately 166 days as indicated in **Table 2**.

**Table 2**  
*General Checking Account Deficit Balance Data<sup>2</sup>*

Start	End	Days	Largest Deficit
01/02/13	01/08/13	6	\$ (6,665.09)
03/22/13	03/28/13	6	\$ (11,288.02)
03/29/13	04/09/13	11	\$ (9,481.84)
04/16/13	05/04/13	18	\$ (14,122.26)
05/06/13	05/17/13	11	\$ (14,757.68)
06/03/13	06/20/13	17	\$ (11,829.69)
06/28/13	07/17/13	19	\$ (18,175.98)
07/29/13	08/09/13	11	\$ (15,615.24)
08/14/13	08/22/13	8	\$ (10,443.97)
09/01/13	09/14/13	13	\$ (14,410.22)
09/27/13	10/24/13	27	\$ (15,049.93)
10/30/13	11/18/13	19	\$ (11,006.90)
		166	

During the first 11½ months of 2014, the General Checking Account ran a deficit balance for approximately 97 days as indicated below in **Table 3**.

**Table 3**  
*General Checking Account Deficit Balance Data<sup>3</sup>*

Start	End	Days	Largest Deficit
03/26/14	04/11/14	16	\$ (16,735.60)
04/30/14	05/22/14	22	\$ (21,136.02)
07/12/14	07/15/14	3	\$ (8,133.22)
07/28/14	07/30/14	2	\$ (25,473.00)
08/13/14	08/19/14	6	\$ (5,970.03)
08/21/14	09/09/14	19	\$ (13,724.08)
10/06/14	10/09/14	3	\$ (17,906.34)
10/14/14	10/24/14	10	\$ (33,798.84)
10/27/14	11/12/14	16	\$ (22,843.43)
		97	

<sup>2</sup> Source: "Account 102 – First National Bank Checking", NNRM QB File

<sup>3</sup> Source: "Account 102 – First National Bank Checking", NNRM QB File

**Findings:**

Below is a description of the findings regarding the cash flow issues indicated above:

- The general checking account within the NNRM QB File contains numerous periods by which distributions are being made without sufficient funds to cover each disbursement;

**Recommendations:** The following is a list of recommendations to address the cash flow issues indicated above.

- The Director should review the QuickBooks' bank account daily to look for any deficit balances.
- The individual(s) in charge of disbursing funds should not allow a payment to be disbursed without sufficient funds in the bank account to cover the disbursement.

*B. Foundation Bank Charges*

Due to the NNRM QB file indicating a cash flow problem as previously reported, we examined statements from The First National Bank of Ely for the General Checking Account. For security purposes, we will not indicate any portion of the bank account number. Our examination produced frequent instances whereby The First National Bank of Ely charged the Foundation for an "Overdraft Charge".

During 2013, The First National Bank of Ely charged the Foundation \$955 for transactions identified as an "Overdraft Charge Item(s) Presented xx/xx/xxxx"<sup>4</sup>. The bank statements indicate charges to the Foundation of \$10 per transaction during the period of January 1, 2013 through July 15, 2013, and \$15 per transaction during the period of September 10, 2013 through December 31, 2013. Based upon this assumption, the Foundation incurred 84 transactions related to overdraft charges.

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<sup>4</sup> xx/xx/xxxx represents the date of the transaction

Through November 17, 2014, The First National Bank of Ely charged the Foundation \$920 for transactions identified as an “Overdraft Charge”. The bank statements indicate charges to the Foundation of \$10 per transaction during the period of April 22, 2014 through September 5, 2014. Based upon this assumption, the Foundation incurred 92 transactions related to an overdraft charge.

**Findings:**

Below is a description of the findings regarding the overdraft charges indicated above:

- The Foundation is incurring unnecessary bank charges by disbursing funds without sufficient funds in the bank account to cover the disbursement.

**Recommendations:** The following is a list of recommendations to address the overdraft charges indicated above.

- The individual(s) in charge of disbursing funds should not allow a payment to be disbursed without applicable funds in the bank account;
- Bank reconciliations should not be performed by signatories on the bank accounts.
- The individual in charge of reconciling the bank account shall notify all members of the Management Board and Board of Trustees each time the Foundation is charged for an overdraft charge. Notification should be delivered via email and/or a formal letter and indicate the reason for each overdraft charge.

*C. Designated Cash Reserves*

On November 13, 2013, Hinton Burdick issued a letter to the Board of Trustees regarding the 2012 audit and the Foundation’s “Designated Cash Reserves”. The letter stated the following:

“At December 31, 2012, \$105,074 of the Foundation’s deferred revenue consists of grant money and other designated contributions to the Foundation that are to be spent on specific purposes. This money should be set aside and only used for the designated purpose. The Foundation’s cash balance at December 31, 2012, was only \$30,233. Thus, the designated cash is being borrowed to pay for other expenditures of the Foundation”

On November 26, 2014, we requested Bassett provide the Excel spreadsheet relating to the Deferred Revenue account. On January 22, 2015, Bassett provided a spreadsheet titled, “Nevada Northern Railroad Deferred Revenue 12/31/2013 6/16/2014” (“Deferred Revenue Spreadsheet”). **Table 4** was created from the Deferred Revenue Spreadsheet as of December 31, 2013.

**Table 4**  
*Deferred Revenue Spreadsheet as of 12/31/13*

Item	Amount
Photo Shoots	\$ 17,875.00
Engine Rentals	\$ 23,979.00
Rail Reality Week	\$ 994.00
cab	\$ 136.00
Bunkhouse	\$ 93.00
Train tickets	\$ 437.00
Polar Express	\$ 872.00
443 - Charters	\$ 1,525.00
Total	<u>\$ 45,911.00</u>
Deferred Revenue Grants	
At&t	\$ 6,000.00
PTR 11-27	\$ 10,709.00
PE 11-54	\$ 9,500.00
Ncot 06-08	\$ 2,844.34
SW 08-11	\$ 13,238.00
PE 09-47	\$ 3,540.00
PTR 12-12	\$ 16,000.00
Total Deferred Revenue Grants	<u>\$ 61,831.34</u>
Total Deferred Revenue	<u><u>\$ 107,742.34</u></u>

**Table 5** was created to indicate the checking/savings accounts as of 12/31/13 and 11/17/14:

**Table 5**  
*Foundation checking/savings accounts*

Account Name	Account description	12/31/13	11/17/14
Petty Cash		\$ 462.52	\$ 662.52
Washington Federal	Online sales		\$ 3,762.32
Gift Shop Account	Gift Shop Checking Account		\$ 10,238.69
First National Bank #1	General Checking Account	\$ 99,689.22	\$ 11,789.07
NB & Trust/Sales Tax Bond	NB & Trust/Sales Tax Bond	\$ 104.33	\$ 104.36
First National Bank #2	Savings Account	\$ 309.69	\$ 1,250.01
First National Bank #3	Savings for projects	\$ 15,018.17	\$ 2,283.80
Bank of America	Online sales	\$ 32,061.11	
Paypal	ebay sales	\$ 4,983.98	
BBMS	Point-of-sale account	\$ 39,732.34	\$ 10,101.33
		\$ 192,361.36	\$ 40,192.10

We examined the NNRM QB file to determine how much of the Deferred Revenue Grants indicated in **Table 4** were used as of November 17, 2014. **Table 6** was created to indicate the information contained within the NNRM QB File for each of the grants listed in **Table 4**.

**Table 6**  
*Deferred Revenue Grant Information as of November 17, 2014*

Deferred Revenue Grant Name	Deposit Date	Deposit Amount	12/31/13 Balance	2014 Expenses	11/17/14 Balance
At&t	12/09/11	\$ 6,000.00	\$ 6,000.00	\$ -	\$ 6,000.00
PTR 11-27	07/28/11	\$ 10,709.00	\$ 10,709.00	\$ -	\$ 10,709.00
PE 11-54	07/28/11	\$ 9,500.00	\$ 9,500.00	\$ -	\$ 9,500.00
Ncot 06-08	07/31/07	\$ 6,315.00	\$ 2,844.34	\$ -	\$ 2,844.34
SW 08-11	07/17/08	\$ 13,238.00	\$ 13,238.00	\$ -	\$ 13,238.00
PE 09-47	07/06/09	\$ 3,540.00	\$ 3,540.00	\$ -	\$ 3,540.00
PTR 12-12	08/23/13	\$ 16,000.00	\$ 16,000.00	\$ -	\$ 16,000.00
		\$ 65,302.00	\$ 61,831.34	\$ -	\$ 61,831.34



Our examination found that as of November 17, 2014, the Foundation did not record any transactions associated with any of the grants within **Table 4**. Therefore, as of November 17, 2014, the Foundation should have on hand at least \$61,831.34 relating to deferred grants. However, as of November 17, 2014, the Foundation only reported \$40,192.10 in all of its checking and savings accounts. Of the \$40,192.10 balance, \$24,869.22 is in accounts not designed to hold grant money (\$662.52 Petty Cash; \$3,762.32 Online Sales; \$10,238.69 Gift Shop; \$104.36 NB & Trust/Sales Tax Bond; and \$10,101.33 Point-of-sale account).

With regards to the other deferred revenue items listed in **Table 4**, the Foundation's refund policy is stated on the nnry.com<sup>5</sup> website as follows:

“TICKET POLICIES: All sales are final. There are NO cash refunds. The Nevada Northern Railway is located in ELY NEVADA. The times shown are departure times. We are in the Pacific Time Zone. Please be at the Depot 90 minutes before train time. Trains operate regardless of the weather. If you have made a purchase for an event or an experience and can't make it, we will issue you a rain check that is good for two years. Or, you can convert your purchase to a tax donation, just let us know. By purchasing below you agree to these policies.”

The issuance of gift certificates and “rain checks” with a set expiration date may fall under Nevada Revised Statutes relating to the disposition of an expired gift certificate (NRS 120A.520 Value remaining on gift certificate.) If the gift certificate and rain check fall under this statute, the value of the gift certificate or rain check on the expiration date would need to be turned over to the Nevada State Treasurer.

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<sup>5</sup> <https://45707.blackbaudhosting.com/45707/page.aspx?pid=196&tab=2&txobjid=cc5af951-7063-4055-a664-b06367b57420>

## Findings

The following is a list of findings relating to the Foundation's Designated Cash Reserves:

- The Foundation has not complied with the November 13, 2013 Hinton Burdick letter referencing the "Foundation's deferred revenue".
- The gift certificates may fall under NRS 120A.520 regarding the expiration date and disposition upon expiration.
- As of November 17, 2014, the Foundation has not fixed the issue relating to *Designated Cash Reserves* indicated in the November 13, 2013, letter from the Foundation's auditors.

**Recommendations:** The following is a list of recommendations relating to the Foundation's Designated Cash Reserves:

- The Foundation should set aside funds into a segregated bank account for the deferred grants;
- The grants designated in
- **Table 4** should be further examined by the Foundation to determine if the grant money should be returned to the grantor or if the Foundation can take the funds into the unrestricted account;
- The Foundation should set aside funds into a separate segregated bank account for the gift certificates and prepayments.
- The gift certificates need to be examined by an attorney to determine if the certificates fall within NRS 120A.520.

*D. Use of Promissory Notes and Lines of Credit*

During a meeting on November 19, 2014, Bassett produced documents relating to four (4) Promissory Notes with The First National Bank of Ely. **Table 7** is a description of the information obtained from the bank documents and the NNRM QB file relating to Promissory Notes with The First National Bank of Ely.

**Table 7**  
*Foundation Loans/Notes*

Loan/Note Name <sup>6</sup>	Loan/Note Date	Original Balance	11/17/14 QB Balance	Total Interest Paid-to-date
<b>Note A</b>	08/29/05	N/A	\$ 91,373.60	\$ 39,138.14
<b>Note B</b>	12/08/08	\$ 95,000.00	\$ 19,442.37	\$ 7,902.37
<b>Note C</b>	12/08/08	\$ 95,000.00	\$ 95,000.00	\$ 16,615.34
<b>Note D</b>	02/12/14	\$ 72,399.22	\$ 65,370.56	\$ 933.91
		\$ 262,399.22	\$ 271,186.53	\$ 64,589.76

**i. Note A:**

On August 29, 2005, the Foundation entered into a Promissory Note with The First National Bank of Ely (“Note A”). The following is a timeline and description of the information pertaining to the 8/29/05 Note:

- Note A’s mature date was December 31, 2005
- The maximum borrowing limit of \$150,000.00 with an interest rate of 4.950%
- Note A is secured by “CCA Grant from State of Nevada”
- Note A was signed on behalf of the Foundation by:
  - Mark S Bassett as Executive Director
  - Patricia A Heinbaugh as Board Member
- The *Corporate Resolution to Borrow/Grant Collateral* (“Resolution #1”) was signed on behalf of the Foundation by:
  - John C. Gianoli as Chairman
  - Mark S Bassett as Executive Director
  - Patricia A Heinbaugh as Board Member

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<sup>6</sup> The actual loan names utilized in the NNRM QB File includes the account number for each note, as a security purpose, Bertsch Firm reclassified the notes.

- The following *Changes in Terms Agreements* relate to Note A:
  - January 19, 2006 (“Change 1”)
    - Maturity date changed from 12/31/05 to 12/31/06
    - Principal of \$150,000.00
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>7</sup>
  - January 3, 2007 (“Change 2”)
    - Maturity date changed from 12/31/06 to 12/31/07
    - Principal of \$0.00
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>8</sup>
  - January 8, 2008 (“Change 3”)
    - Maturity date changed from 12/31/07 to 12/31/08
    - Principal of \$58,628.94
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>9</sup>
  - March 13, 2008 (“Change 4”)
    - Principal Increased from \$285,697.39 to \$290,000
    - Monthly Interest Payments will be “autocharged” to Foundation bank account
    - Signed by Mark Bassett and an unknown individual<sup>10</sup> for Borrower
    - Signed by John Gianoli for Bank Officer<sup>11</sup>

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<sup>7</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>8</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>9</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>10</sup> The signature indicates a possible name of “Steve B”

<sup>11</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

- December 5, 2008 (“Change 5”)
  - Maturity date changed from 12/31/08 to 12/31/09
  - Principal of \$290,000
  - Signed by Mark Bassett for Borrower
  - Signed by John Gianoli for Bank Officer<sup>12</sup>
- December 24, 2009 (“Change 6”)
  - Maturity date changed from 12/31/09 to 12/31/10
  - Principal of \$290,000
  - Signed by Mark Bassett for Borrower
  - Signed by John Gianoli for Bank Officer<sup>13</sup>
- December 16, 2010 (“Change 7”)
  - Maturity date changed from 12/31/10 to 1/1/12
  - Principal of \$290,000
  - Signed by Mark Bassett for Borrower
  - Signed by John Gianoli for Bank Officer<sup>14</sup>
- December 30, 2011 (“Change 8”)
  - Maturity date changed from 1/1/12 to 1/1/13
  - Principal of \$290,000
  - Signed by Mark Bassett for Borrower
  - Signed by John Gianoli for Bank Officer<sup>15</sup>
- On January 3, 2013 (“Change 9”)
  - Maturity date changed from 1/1/13 to 1/1/14
  - Principal of \$290,000
  - Signed by Mark Bassett for Borrower
  - Signed by John Gianoli for Bank Officer<sup>16</sup>

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<sup>12</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>13</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>14</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>15</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>16</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

- December 30, 2013 (“Change 10”)
  - Maturity date changed from 1/1/14 to 1/1/15
  - Principal of \$290,000
  - Signed by Mark Bassett for Borrower
  - Signed by an unknown individual<sup>17</sup> for Bank Officer
- May 14, 2014 (“Change 11”)
  - Existing Indebtedness is a “line of credit with an existing balance of \$98,075.65 and an advance limit of \$290,000.00”.
  - The loan is unsecured
  - The limit will decrease back to the original limit of \$150,000
  - Signed by Mark Bassett and Roger L. Bowers for Borrower
  - Signed by an unknown individual<sup>18</sup> for Lender
- May 14, 2014, the *Corporate Resolution to Borrow/Grant Collateral* (“Resolution #2”) was signed on behalf of the Foundation by:
  - John C. Gianoli as President
  - Mark Bassett as Executive Director
  - Roger L. Bowers

**Table 8**, on the following page, was created to indicate the annual interest paid on the note, total number of advances and total advanced.

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<sup>17</sup> The signature indicates a possible name of “Jackie H”

<sup>18</sup> The signature indicates a possible name of “Jackie H”

**Table 8**

*Note A Information*

Year	Interest Paid	Number of Advances	Advance Totals
2005	\$ 380.18	1	\$ 96,667.65
2006	\$ 1,499.15	7	\$ 178,850.55
2007	\$ 1,164.50	9	\$ 184,173.12
2008	\$ 3,518.36	18	\$ 570,248.43
2009	\$ 6,540.89	18	\$ 312,095.92
2010	\$ 5,447.07	13	\$ 318,121.10
2011	\$ 5,719.81	13	\$ 114,895.14
2012	\$ 5,872.69	6	\$ 151,992.00
2013	\$ 5,413.33	9	\$ 117,614.71
2014	\$ 3,582.16	7	\$ 62,879.47
Grand Total	\$ 39,138.14	101	\$ 2,107,538.09

The last time Note A had a zero balance was on August 27, 2008 and as of November 13, 2014, Note A had a balance of \$91,373.60.

Foundation records indicate that Note A is utilized to advance funds for certain grants whereby the Foundation would have to expend money prior to the Grantor disbursing funds to the Foundation (“Matching Grant”). The following is a description of the Foundation’s transactions and flow of funds pertaining to a Matching Grant:

1. Foundation applies to Grantor for Matching Grant;
2. Foundation receives Matching Grant approval;
3. Foundation borrows funds relating to Matching Grant from Note A. Said transfers are listed in the memo of the transaction;
4. Borrowed money is deposited into General Checking Account;
5. Foundation pays expenses associated with Matching Grant from General Checking Account;
6. Foundation submits expenses to be matched by Grantor;
7. Foundation receives matching funds and deposits money into general checking account;
8. Foundation pays down Note A.

In addition to borrowing funds for Matching Grants, the NCRM QB file indicated borrowing of funds from Note A for “operations”. The following is a description of the funds borrowed and classified as “operations”:

- April 9, 2013, the Foundation advanced \$26,633.85 into the General Operating Account. The transfer was classified to “Program: Operations”. At the time of advancement, the General Operating Account had a deficit balance of (\$5,227.25);
- September 30, 2014, the Foundation advanced \$5,000 into the General Operating Account. The transfer was classified to “Program: Operations.” The same day, the Foundation cut check #120781 to the law firm of Goicoechea, DiGrazia, Coyle & Stanton in the amount of \$5,000;
- November 6, 2014, the Foundation advanced \$21,085.27 into the General Operating Account. The transfer was classified to “Program: Operations.” At the time of advancement, the General Operating Account had a deficit balance of (\$22,935.57);

On November 26, 2014, we requested that Bassett “Provide board minutes pertaining to loan approval and changes” relating to Note B. On January 9, 2015, Bassett produced the White Pine Historical Management Board Minutes for August 22, 2005.

The White Pine Historical Management Board Minutes for the meeting indicated the following conversation pertaining to the Note:

“Mr. Gianoli stated the Motion as follows: You want a motion authorizing you to establish \$150,000.00 revolving loan fund to accommodate CCA.

And Mr. Bassett would like to amend that and do it with First National Bank. And the reason being, the last time we put a loan out for bid, First National Bank was the only one who responded.

Mr. Gianoli asked if letters needed to be sent out again.

Mr. Bassett replied “No”

Mr. Meyer said that he didn’t see where that was necessary being we had already established credit with the firm.

Mr. Gianoli asked if there was a motion to pursue setting up this loan?



Ms. Heinbaugh so moved.

Mr. Meyer seconded the motion.

The motion passed unanimously.

Other than the approval to establish a \$150,000 revolving loan, we did not receive the following meeting minutes from Bassett addressing:

- The eleven (11) Changes in Terms Agreements to the note between 2006 and 2014,
- The May 14, 2014, *Corporate Resolution to Borrow/Grant Collateral* signed by John C. Gianoli as President, Mark Bassett as Executive Director and Roger L. Bowers.

**ii. Note B:**

On December 8, 2008, the Foundation entered into a Promissory Note with The First National Bank of Ely (“Note B”). The following is a timeline and description of the information pertaining to Note B:

- Note B’s mature date was November 30, 2009;
- The principal amount borrowed was \$95,000.00 with an interest rate of 3.500%;
- Note B is secured by “93 renovation donations”;
- Note B was signed on behalf of the Foundation by:
  - Mark S Bassett as Executive Director
  - J. Terry Gust as Board Member
- The *Corporate Resolution to Borrow/Grant Collateral* (“Resolution #1”) was signed on behalf of the Foundation by:
  - John C. Gianoli as Chairman
  - Mark S Bassett as Executive Director
  - J. Terry Gust as Board Member

- The following *Changes in Terms Agreements* relate to Note B:
  - January 6, 2010 (“Change 1”)
    - Maturity date changed from 11/30/09 to 12/31/10
    - Principal of \$50,109.02
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>19</sup>
  - January 10, 2011 (“Change 2”)
    - Maturity date changed from 12/31/10 to 12/31/11
    - Principal of \$50,109.02
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>20</sup>
  - December 30, 2011 (“Change 3”)
    - Maturity date changed from 12/31/11 to 12/31/12
    - Principal of \$37,161.95
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>21</sup>
  - January 3, 2013 (“Change 4”)
    - Maturity date changed from 12/31/12 to 12/31/13
    - Principal of \$28,452.25
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>22</sup>

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<sup>19</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>20</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>21</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>22</sup> The signature on the Change in Terms Agreement resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

- December 30, 2013 (“Change 5”)
  - Maturity date changed from 12/31/13 to 12/31/14
  - Principal of \$19,442.37
  - Signed by Mark Bassett for Borrower
  - Signed by an unknown individual<sup>23</sup> for Bank Officer

On November 26, 2014, we requested that Bassett “Provide board minutes pertaining to loan approval and changes” relating to Note B. On January 9, 2015, Bassett produced the White Pine Historical Management Board Minutes for meetings held on November 12, 2008 and December 17, 2008.

The White Pine Historical Management Board Minutes for the meeting held on November 12, 2008, includes a statement from Bassett relating to the funds from Note B as follows:

“Mr. Bassett only wants to do the loan for twelve months and have it paid off in a year’s time. The loan is \$95,000. We shouldn’t have to touch all of that right away and he isn’t sure if all that money will be needed. It is a high estimate”

The NCRM QB File indicated that Note B and Note C (described later in this report) were deposited into the operating account on December 8, 2008. On December 7, 2008, two checks totaling \$182,471.65 were disbursed as follows:

- Check 10385 to Bonneville for \$156,268.00
- Check 10401 to Gary's Machine Shop for \$26,203.65

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<sup>23</sup> The signature indicates a possible name of “Jackie H”

The White Pine Historical Management Board Minutes for the meeting held on November 12, 2008, indicates Bassett's understanding of the invoice from Bonneville:

“We do know that we are going to receive a bill from Bonneville Machining from \$80,000 to \$100,000. That he can say because the bill right now is between \$70,000 and \$75,000.”

According to Bassett's understanding of Bonneville's invoice as of November 12, 2008 and the actual payment of \$156,268 on December 7, 2008, Bonneville's invoice:

- Increased by \$81,268 or 70% of the November 12, 2008 estimated balance;
- Increased by \$56,268 or 44% of the November 12, 2008 estimated bill.

As of the date of this report, we have not received the following meeting minutes from Bassett addressing:

- The five Changes in Terms Agreements to Note B between 2010 and 2013

### **iii. Note C:**

On December 8, 2008, Mark S. Bassett and J. Joan Bassett entered into a Promissory Note with The First National Bank of Ely (“Note C”). The following is a timeline and description of the information pertaining to Note C:

- Note C's maturity date was November 30, 2009;
- The principal amount borrowed was \$95,000.00 with an interest rate of 3.500%;
- Note C is secured by an investment account (for security purposes, the institution and account information are withheld);
- Note C was signed by:
  - Mark S. Bassett
  - J. Joan Bassett

- The following *Changes in Terms Agreements* relate to Note C:
  - January 6, 2010 (“Change 1”)
    - Maturity date changed from 11/30/09 to 12/31/10
    - Principal of \$95,000.00
    - Signed by Mark Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>24</sup>
  - December 30, 2011 (“Change 2”)
    - Maturity date changed from 12/31/11 to 12/31/12
    - Principal of \$95,000
    - Signed by Mark Bassett and J Joan Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>25</sup>
  - January 3, 2013 (“Change 3”)
    - Maturity date changed from 12/31/12 to 12/31/13
    - Principal of \$95,000
    - Signed by Mark Bassett and J Joan Bassett for Borrower
    - Signed by John Gianoli for Bank Officer<sup>26</sup>
  - December 30, 2013 (“Change 4”)
    - Maturity date changed from 12/31/13 to 12/31/14
    - Principal of \$95,000
    - Signed by Mark Bassett and J Joan Bassett for Borrower
    - Signed by an unknown individual<sup>27</sup> for Bank Officer
  - The documents for Note C include a memo dated December 6, 2012, (“Note C Memo”) from John C. Gianoli to “Mark & Joan Bassett Loan File File #XXXXX” (The file number has been omitted for security issues).

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<sup>24</sup> The signature on the Change in Terms Agreement for Note A and Note B resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>25</sup> The signature on the Change in Terms Agreement for Note A and Note B resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>26</sup> The signature on the Change in Terms Agreement for Note A and Note B resembles Gianoli’s signature on the *Corporate Resolution to Borrow/Grant Collateral*

<sup>27</sup> The signature indicates a possible name of “Jackie H”

Image 5 is a copy of the body of the Note C Memo.

*Image 5*

Mark is the Executive Director of the White Pine Historical Railroad. When engine number 93 needed repairs and the White Pine Historical Railroad Foundation, Inc. did not have the funding to make the repairs, Mark and Joan requested a loan in their name, secured by their shares in a [REDACTED] account. As the railroad is a valuable asset to our community, the bank agreed to make a concession on the interest rate charged on this loan.

The Railroad is the main tourist attraction that brings people to White Pine County. In 2011, the hotel/motel revenue for White Pine County was nearly \$8.4 million. Hundreds of people are employed in the service businesses that support tourism. Keeping this railroad running is very important to our community.

Since the Bassett's were willing to pledge their securities to help the railroad, the bank agreed to a lower rate on the loan.

On November 26, 2014, we requested that Bassett "Provide board minutes pertaining to loan approval and changes" relating to Note C. On January 9, 2015, Bassett produced the White Pine Historical Management Board Minutes for meetings held on November 12, 2008 and December 17, 2008.

The following is an excerpt from the December 17, 2008, White Pine Historical Management Board Minutes categorized as “VI Financial and Fund Development 1. Financial Report”:

“The Board agreed to attempt financing to defray the cost of refurbishing 93. That was \$95,000. If you look under long term liability, you will notice that number, but you will notice it twice. What transpired here was one of these painful educations where the costs of getting 93 up and running was significantly higher than we had hoped. The Board had authorized a loan for \$95,000 and we were able to secure the loan. But we needed an additional loan to cover the entire cost, which they needed immediately. Our Executive Director pledged some of his personal assets to secure a second \$95,000 loan to get Bonneville and everyone else paid. They have been paid. The wheels and everything are here.”

Additionally, the White Pine Historical Management Board Minutes for the meeting held on November 12, 2008, included statements relating to Foundation debt. The following is a statement made by Kevin Briggs (“Briggs”), the City/Railroad attorney, relating to debt terms:

“Since we are a governmental entity, you cannot get a loan for more than twelve months unless you go through the Debt Services Commission and verified through the State Tax Commission whether or not you have the ability to repay. You can do short term notes but no longer than twelve months. And there cannot be any extensions [*emphasis added*]. It is called Short Term note or Short Term Financing. The maximum time you have is twelve months without putting it through Medium Term Financing which includes going in front of Debt Services Commission and the State Tax Commission”

Further into the meeting, Briggs and Bassett discussed updates to the project as indicated below:

“Mr. Briggs doesn’t recall any kind of updates to the Board as far as increased costs that hadn’t been approved. It seems that the Board approved an \$85,000 expenditure on that. He doesn’t recall any other expenditure in relation to Locomotive 93. He just remembers one time expenditures were presented to the Board for approval.”

“Mr. Bassett said that, other than in the beginning, he doesn’t think he has brought anything else to the Board. Some of this we just didn’t know until we got into it.”

Lastly, the meeting minutes include the following statement:

“Mr. Bassett would feel obligated to call Mr. North and Bonneville and say take a break we are up against it. After an extremely busy summer, Mr. Bassett admits that this has gotten away from him just a little bit. He is willing to go out on a limb and guarantee that he will get the \$95,000 back. If he cannot raise it, then he will just write a check for it.”

Since inception on December 10, 2008, both the NCRM QB file and The First National Bank of Ely documents indicate that there has been no payment made towards the principal of this loan.

Other than Bassett providing White Pine Historical Management Board Minutes for meetings held on November 12, 2008 and December 17, 2008, Bassett has not provided board minutes relating to board approval for:

- The issuance of Note C
- The four Changes in Terms Agreements to the Note.



Interest on this loan has been paid as indicated by the following NNRV QB File transactions:

- January 16, 2010 – \$3,570.41 paid by Mark & Joan Bassett and added to Note D<sup>28</sup>;
- March 24, 2011 - \$3,325 paid by Mark & Joan Bassett and added to Note D<sup>29</sup>;
- December 31, 2012 - \$6,595.37 paid through a donation<sup>30</sup>;
- December 31, 2013 - \$3,124.56 paid by Foundation<sup>31</sup>.

**iv. Note D:**

On February 12, 2014, the Foundation entered into a *Promissory Note* with Mark and Joan Bassett, individually and collectively as a marital community, (“Note D”). The following is a timeline and description of the information pertaining to Note D:

- Note D does not have a mature date, however the loan register, contained in the note documents, indicates the final payment is to be made on December 1, 2017;
- The principal amount was \$72,399.22 with an interest rate of 3.5%;
- Note D is signed by John C. Gianoli as Chairman of the Management Board for White Pine Historical Railroad Foundation.

The NNRV QB file indicated the basis of Note D stems from several years of expenses paid by Mark and/or Joan Bassett for the benefit of the Foundation. **Table 9**, on the following page, shows the annual accumulation of expenses associated with Note D.

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<sup>28</sup> General Journal Entry “Moo23”

<sup>29</sup> General Journal Entry “MOB 2015”

<sup>30</sup> General Journal Entry “2011-79jb”

<sup>31</sup> Check #119879

**Table 9**

*Note D Annual Expenses*

Year	Amount
2006	\$ 20,901.31
2007	\$ 133.34
2009	\$ 15,847.68
2010	\$ 11,798.91
2011	\$ 11,429.78
2012	\$ 11,825.20
2013	\$ 463.00
	<hr/>
	\$ 72,399.22

As indicated above, Note D was reduced to a *Promissory Note* on February 12, 2014, approximately eight years after the first transaction in 2006.

**Findings:**

The following is a list of findings relating to the Foundation's use of promissory notes and lines of credit:

- The Board of Trustees and Management Board appear to never have approved any of the number of changes to Note A;
- The Board of Trustees and Management Board appear to never have approved any of the number of changes to Note B;
- The Board of Trustees and Management Board appear to never have approved Note C;
- The Board of Trustees and Management Board appear to never have approved any of the number of changes to C;
- Note C is carried on the Foundation's books although the Foundation is not a party to the Note;
- Note C has not been paid down since inception in December 8, 2008;
- Bassett incurred \$72,399.22 in Foundation related expenses eight years prior to Note D being memorialized in 2014.

**Recommendations:** The following is a list of recommendations pertaining to the Foundation's use of promissory notes and lines of credit:

- Prior to the Foundation borrowing any funds, the Foundation should present a formal request to the Board of Trustees for each amount requested. A sample of said REQUEST TO BORROW FUNDS is attached as **Exhibit B**;
- Upon the approval by the Board of Trustees to borrow funds for any grant, the Foundation shall deposit all borrowed funds into a segregated bank account, separate from the General Checking Account. The segregated bank account shall pertain to all grant transactions, thus ensuring that grant income and expenses are not comingled with other sources of funds;
- Once an expense is paid by the Foundation, an amount equal to the expense should be recorded as a **debit** to Grants Receivable and a **credit** to Grant Income. This transaction indicates that the Foundation incurred the expense with the intent that it will be matched by the Grantor;
- Once the Foundation receives the matching funds from Grantor, the funds shall be deposited into the segregated bank account;
- Once in the segregated bank account, the matching grant funds shall be applied against the amount borrowed;
- Once the amount borrowed has been paid back, the Executive Director shall submit a report of the borrowed funds to the Board of Trustees. A sample of said REPORT OF BORROWED FUNDS is attached as **Exhibit C**;
- Interest on borrowed funds shall be paid through the General Operating Account;
- The Executive Director shall submit, to the Board of Trustees for approval, a separate request to borrow funds for operational expenses;
- All changes to a loan's terms should be submitted to the Board of Trustees for discussion and approval;
- The Board of Trustees should discuss the reclassification of Note C, between Mark S. Bassett and J. Joan Bassett and The First National Bank of Ely, as a donation from Bassett to the Foundation.

### E. Segregation of Grants

Accepting Federal, State, Local and/or private grants often require the recipient to maintain records which identify the source and use of funds provided for each grant-funded activity. Some Federal grants require the grantee to establish a segregated bank account for each grant received. A segregated bank account is setup to ensure that only grant income and expenses can occur within this account. Non-grant funds do not occur within this type of account.

Although most grants do not require the creation of a segregated bank account for each grant, the action of administering all grant funds within a segregated bank account mitigates the misreporting and/or misappropriation of grant funds. Commingling, or combining grant funds with operating funds can create the following problems:

- Restricts the user from properly accounting for the grants;
- Allows the user to “borrow” from one grant to pay for the expenses associated with a different grant;
- Decreases the ability to accurately tracing grant funds if needed for an audit;
- Allows for the untimely disbursement of grant funds.

Our examination traced grants labeled as: PE 15-26, PE 15-27, and PE 15-29. The following is a timeline of the transactions for the above grants:

- October 14, 2014 - \$5,000 is paid to Mountain Post Digital Imaging via check #120842. Invoice is classified to PE 15-26
  - Operating account has a deficit of (\$8,721.69) prior to payment
- October 24, 2014 - \$9,294.20 is advanced from Note A
  - \$5,000.00 for PE 15-26
  - \$4,294.20 for PE 15-29
  - Operating account has a deficit of (\$6,608.70) prior to advancement
- November 12, 2014
  - \$15,000 is deposited into Operating account
    - \$5,000 for PE 15-26
    - \$5,000 for PE 15-27
    - \$5,000 for PE 15-29

- o \$1,320 is paid to Patrick Media via check #120919. Invoice is classified as PE 15-27
- o Operating account has a deficit of (\$3,218.66) prior to deposit
- o \$6,076.81 in payroll related expenses paid

**Table 10** indicates the transactions occurring within the operating account on the same day as the deposit of grant funds.

**Table 10**  
*11/12/14 NNRM QB File Transactions*

	Operating	Current Grants	Total
11/11/14 Balance	\$ (3,218.66)		\$ (3,218.66)
Current Grant Income		\$ 15,000.00	\$ 15,000.00
Current Grant Expenses		\$ (1,320.00)	\$ (1,320.00)
Prior Grant Expense	\$ (3,680.00)		\$ (3,680.00)
Payroll Expenses	\$ (6,076.81)		\$ (6,076.81)
Gift Shop Sales	\$ 110.00		\$ 110.00
Intercompany Transfer	\$ 12,000.00		\$ 12,000.00
11/12/14 Balance	\$ (865.47)	\$ 13,680.00	\$ 12,814.53

**Table 10** indicates that \$865.47 in current grant funds were used to pay expenses not classified in the NNRM QB File as current grant expenses.

QuickBooks allows the user to track transactions according to a “class” system. Using a “class” system in QuickBooks allows the user to create a profit and loss statement for each aspect of the Foundation that is tracked by a class. The NNRM QB File indicates that the Foundation utilizes the “class” system for grants, program types, and other types of transactions.

However, the NNRM QB File also reports grant transactions by creating an individual income and expense account for grants. This practice creates two additional accounts to be shown on the Profit & Loss. The Foundation should only have two Profit & Loss grant related accounts, “Grant Income” and “Grant Expense”. Additional accounts are not necessary if the Foundation is using “class” tracking. By allowing an individual the opportunity to create a new account within the chart of accounts, the Foundation is increasing the risk for future possible misappropriation of

assets and/or improper reporting of transactions. QuickBooks 2014 allows the administrator to set various roles for each user, thus limiting the opportunity to create new accounts.

**Findings:**

Below is a description of the findings regarding the current segregation of grants:

- Grant expense is paid when operating account is at a deficit;
- Funds for Grants are advanced when operating account is at a deficit;
- Grants are deposited into the operating account when account is at a deficit;
- Comingling of grant funds with operating expenses as indicated in **Table 10**;
- Unnecessary accounts within the chart of accounts.

**Recommendations:**

Below is a description of the recommendations regarding the current segregation of grants:

- Have all grants deposited into a segregated bank account;
- Have all grant expenses paid from segregated bank account;
- The segregated bank account should be reconciled every month;
- A schedule of grant money in the segregated bank account should be created and reconciled every month. The schedule should indicate which grant funds are being held within the segregated account;
- Policy should be adopted that non-grant funds cannot be deposited into or paid from segregated bank account;
- Have all future grants reviewed by Executive Director for determination of additional segregation;
- Have all grant transactions shown on the Profit & Loss as “Grant Income” and “Grant Expense”;
- Only the Executive Director should be allowed to create a new account on the Foundation’s Chart of Accounts.

## V. Board of Trustees Areas of Concern

Along with the above report, the Board of Trustees provided a list of areas of concern for Bertsch Firm to examine. The following is a list of the areas along with findings and recommendations:

### A. Nomenclature Questions

- i. **Board Concern** - The name “Nevada Northern Railway” is currently used by the Foundation; however that name is no longer registered with the office of the Nevada Secretary of State.

### Findings:

- The 2013 audit prepared by Hinton Burdick, the Foundation operates as “the Nevada Northern Railway Museum”;
- The Bassett cover letters for the production of documents contain the phrase, “Nevada Northern Railway”;
- The website for the Foundation<sup>32</sup> includes the phrase, “Nevada Northern Railway”;
- **Table 11** indicates the information contained on the Nevada Secretary of State website<sup>33</sup> relating to the phrases, “Nevada Northern Railroad”; “Nevada Northern Railway”; “Nevada Northern Railway Company”; “Nevada Northern Railway Museum”;

**Table 11**

*Nevada Secretary of State Information*

File Date	Entity Name	Expiration Date	Type	Holder
01/13/05	Nevada Northern Railroad	04/13/05	Reserved Name	Robert Alan Kemp
11/28/05	Nevada Northern Railway	02/28/06	Reserved Name	Aviation Technologies Ltd
02/23/07	Nevada Northern Railway Company	05/23/07	Reserved Name	Robert Alan Kemp
05/24/07	Nevada Northern Railway Company	08/24/07	Reserved Name	Joanne McMaster
07/28/08	Nevada Northern Railway Company	10/28/08	Reserved Name	Jordan R Oxborrow
07/29/08	Nevada Northern Railway Museum	10/29/08	Reserved Name	Jordan R Oxborrow
11/14/08	Nevada Northern Railway Company	11/30/11	Domestic Corporation	Jordan R Oxborrow
03/30/09	Nevada Northern Railway Company	03/30/14	Service Mark	Jordan R Oxborrow
04/03/09	Nevada Northern Railway Museum	07/03/09	Reserved Name	Jordan R Oxborrow
11/15/13	Nevada Northern Railway Company	02/15/14	Reserved Name	Mark Bassett

<sup>32</sup> <http://www.nnry.com/>

<sup>33</sup> <http://nvsos.gov/sosentitysearch/>

- An entity such as the Foundation, can file for a “Fictitious Firm Name” at the county level, which would be filed with the White Pine County Clerk.
- The White Pine County Clerk office confirmed that a FFN was filed on May 9, 1988 as “Nevada Northern Railway” (Filing #1233);
- Included in the 10/17/14 Request on page 19, was the request for, “All Fictitious Firm Name (“FFN”) filings made on behalf of White Pine Historical Railroad Foundation or a subsidiary”;
- During the November 18, 2014 meeting, Bassett indicated “Lewis & Roca” possibly has the FFN filings.

Recommendations: The Board of Trustees should decide if any other name for the Foundation should be adopted. If approved, FFN should be filed by the Board of Trustees with the White Pine County Clerk and should be retained by the Board of Trustees. The FFN filed on May 9, 1988 allows the Foundation to utilize the name, “Nevada Northern Railway” as doing business as (“DBA”). The Foundation should ensure that all documentation produced by the Foundation bears the name of the Foundation or the “Nevada Northern Railway”.

- ii. **Board Concern** – There remains a question whether the Great Basin and Northern Railway is a part of or wholly-owned subsidiary of the Foundation, (one should check whether it is registered as “railway” or “railroad”)

Findings: (This is covered in detail on pages 19 through 25 of this report)

Recommendations: (This is covered in detail on pages 19 through 25 of this report)

- iii. **Board Concern** - The Foundation conducts business as the “Nevada Northern Railway Museum” even though that name is not registered with the Nevada Secretary of State – why is this so, and is it legally permissible?



Findings:

- An entity such as the Foundation, can file for a “Fictitious Firm Name” at the county level, which would be filed with the White Pine County Clerk.
- The White Pine County Clerk office confirmed that a FFN was filed on May 9, 1988 as “Nevada Northern Railway” (Filing #1233).

Recommendations: The FFN filed on May 9, 1988 allows the Foundation to utilize the name, “Nevada Northern Railway” as doing business as (“DBA”). The Foundation should ensure that all documentation produced by the Foundation bears the name of the Foundation or the “Nevada Northern Railway”.

*B. Availability of Records*

- Board Concern** – If it is found that the Great Basin and Northern Railway is a part of or a wholly owned subsidiary of the Foundation, the financial records for that entity have never been subject to the regular audit of the Foundation. The financial records thereto appertaining need to be subjected to a thorough audit.

Findings:

- Schedule R, Part IV of the 2010, 2011, 2012, and 2013 *Form 990 Return of Organization Exempt from Income Tax* filed with the Internal Revenue Service, the Foundation reported the Great Basin and Northern Railroad, Inc. as a related entity;
- The *Agreement to Assign Track Miles for purposes of the credit under section 45G of the Internal Revenue Code* dated December 16, 2013, between the Foundation and Great Basin and Northern Railroad, Inc. as “Assignors” and Montana Rail Link, Inc. as “Assignee” lists the Foundation as (“Parent”) of GB&N;
- The 2013 audit conducted by Hinton Burdick does not list Great Basin and Northern Railroad, Inc. as a subsidiary of the Foundation.

Recommendations: (This is covered in detail on pages 19 through 25 of this report)

- The books and records of Great Basin and Northern Railroad, Inc. should be included in the annual audit of the Foundation and reported as “Consolidated Financial Statements”.

- ii. **Board Concern** – The proceeds of the sale of tax credits (railway Track Maintenance Credits – IRS 45G) for any portion of trackage owned by the City of Ely or Foundation.

Findings:

- The NNRM QB File and First National Bank of Ely bank statements indicate the following transactions relating to the 45G tax credits.
  - December 31, 2010 - \$66,500 was deposited into the general checking account;
  - December 16, 2011 - \$66,500 was deposited into the general checking account;
  - January 8, 2013 - \$66,495 was deposited into the general checking account;
  - December 19, 2013 - \$66,495 was deposited into the general checking account;

Recommendations: N/A

- iii. **Board Concern** – How much money from the sale of tax credits pass from the Montana Rail Link (which purchased the tax credits from the Great Basin and Northern) to the Foundation?

Findings: (This is covered above in the findings of the Board Concern item ii)

Recommendations: N/A

- iv. **Board Concern** – What is the location of the records of all Foundation property which has been sold, and what was the amount for which they were sold? Specifically including detailed financial information surrounding the “Whipple”<sup>34</sup> car (one formerly owned by Mr. Whipple, obtained by the Foundation as part of a legal settlement).

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<sup>34</sup> It is believed that the Mark Requa car and the Whipple car are the same car.

Findings:

- **Table 12** contains transactions listed in the NNRM QB File relating to the sales of vehicles:

**Table 12**  
*Sale of Assets*

Date	Memo	Amount
11/11/10	Explorer	\$ 1,100.00
12/31/11	to reclassify sale Loco Die 1500HP EMD SD-9	\$ 22,850.00
09/12/13	Sold Ford Bronco to Anthony DeBellis	\$ 650.00
12/02/13	1st payment of the selling of the railroad car in Reno	\$ 32,495.00
12/11/13	2nd payment of the selling of Pacific Grove	\$ 37,495.00
		<u>\$ 94,590.00</u>

- On November 19, 2014, Bassett produced the “Railroad Equipment Bill of Sale” dated December 12, 2013. The “Nevada Northern Railway Museum” is listed as (the “Seller”) and James W Nixon III is listed as (the “Buyer”). The property transferred is listed as “Railroad Passenger Car known as “Pacific Grove”” with a purchase price of \$75,000.
- On January 9, 2015, Bassett produced “Certificate of Title” documents relating to the following vehicles:
  - 1988 GMC GC305 in the name of the Foundation
  - 1995 Ford F250 in the name of the Foundation
  - 2008 ASVE Utility in the name of the Foundation
  - 1930 Ford Model A in the name of the Foundation
  - 2006 Chevrolet Silverado in the name of the Foundation
  - 1978 Ford F377 in the name of the City of Ely (title is difficult to read)
  - 2004 Ford F250 in the name of the Foundation
- Section IV(3)(a) of the Management Board meeting minutes from March 20, 2014 contain the following relating to the “Mark Requa” car:

“Lease between Bassetts and Foundation in packet. Foundation would store car; Bassetts would supply parts to restore; idea was to turn car into bed and breakfast. Signed 3-14-06; if not restored in ten years, ownership reverts to Foundation. \$75K to \$ 100K to do the work on the car. Bassett - still viable project and would be nice to do. Gianoli - \$15K is portion of \$72K loan; foundation has agreed to

pay money back to Bassetts including the \$15,000 put into the car. Bassett - \$15K was to be used to be for work that was never completed. Gianoli - issues with car need to be resolved; need to decide among everyone whether it should be sold back. Bassett - maybe carry forward to next agenda and consider selling the car? Gianoli - suggestion to continue and review with more details.”

- Section V(2)(a) of the Management Board meeting minutes from April 24, 2014 contains the following relating to the “Mark Requa” car, “Joan and Mark would like to list and sell the car.”
- Section VII(1) of the Management Board meeting minutes from May 15, 2014 contains the following relating to the “Mark Requa” car, “Update/For Possible Action review of the Mark Requa car status and possible disposition.”
- The NNRM QB File only contains one item within the Fixed Asset Item List. The other Foundation assets are not listed in the Fixed Asset Item List. The assets are pooled into various asset accounts.

Recommendations:

- We recommend that prior to the Purchase, Sale and/or Transfer of Foundation assets over a certain amount, the Board of Trustees shall approve the Purchase, Sale and/or Transfer of the asset(s).
  - We recommend that each asset be entered into the QB Fixed Asset Item List for proper tracking.
- v. **Board Concern** – A complete accounting of all transactions between the Foundation and the S&S Shortline Leasing, Inc. has yet to be produced.

Findings:

- The NNRM QB File contains the following transactions relating to S&S
  - Check 116861 dated 3/11/11 for \$128. The check is recorded against account “800000 · Train operating expenses:896000 · Track”

- Check 119924 dated 1/11/14 for \$3,410.75. The check is recorded against account “800000 · Train operating expenses:835000 · Diesel Locomotives:8350109 · 109 Alco RS-3 diesel locomotive”
- Check 120564 dated 7/24/14 for \$2,815.78. The check is recorded against account “800000 · Train operating expenses:835000 · Diesel Locomotives:8350204 · 204 EMD SD-9 diesel locomotive”
- Check 120672 dated 8/21/14 for \$32.03. The check is recorded against account “800000 · Train operating expenses:835000 · Diesel Locomotives:8350204 · 204 EMD SD-9 diesel locomotive”
- Invoice 18350 dated 8/15/14 for \$500. The invoice is recorded against account “800000 · Train operating expenses:835000 · Diesel Locomotives:8350204 · 204 EMD SD-9 diesel locomotive”
- In 2009, the City of Ely and the White Pine Historical Foundation, (collectively, “Ely”) and S&S Shortline Leasing LLC (“S&S”) entered into a *Lease Agreement/Joint Development Agreement* (collectively, the “S&S Agreement”) containing the following:
  - Page 1 of the S&S Agreement indicates: “WHEREAS, Ely and S&S believe that a joint effort to utilize this section of rail is beneficial to both parties such that allowing S&S to fix and maintain the rail, a profit could be generated to financially benefit Ely and S&S to have a financial benefit with the possibility of ownership interest if it becomes necessary for S&S to financially assist in the pending lawsuit.”
  - Section 3 of the S&S Agreement titled “PAYMENT:” contains the following language: “As consideration the lease will be paid through revenue sharing between S&S and Ely at a rate of 25% of net revenue payable by S&S to Ely on a quarterly basis with accompanying accounting documentation. Additionally, S&S will provide Ely with copies of the manifests of each car being stored on its rail line so Ely may verify that no hazardous materials are being stored on the line”
  - Section 15 of the S&S Agreement titled “INSPECTION:” contains the following language: “Ely, by its officers, employees or other authorized agent, shall have the right to enter upon said premises at any and all reasonable times during the term hereof for the purpose of informing itself as to the compliance or non-compliance

by S&S of the terms, covenants and conditions of this Agreement upon its part to be kept and performed”

- On November 19, 2014, Bassett produced two copies of reports produced by S&S indicated below:
  - Report dated November 23, 2010 regarding 3<sup>rd</sup> Qtr 2010. The report includes:
    - “Profit & Loss Prepared by S&S Shortline Leasing CPA<sup>35</sup>” and
    - Receipts
  - Report dated May 24, 2010 containing information for:
    - equipment listing with accompanying lease rates and basis for rates along with supporting documents
    - equipment maintenance and repair costs for calendar year 2009 and 1<sup>st</sup> quarter 2010
- Bassett indicated that he does not have any other reports from S&S.

Recommendations: Due to the lack of records produced relating to the S&S Agreement, we deferred this issue to the City Council to request the records directly from S&S.

C. Propriety of, or Compliance with Standard Accounting Practices

- i. **Board Concern** – How many sets of financial records are kept by the Foundation and the Great Basin and Northern?

Findings:

- On November 18, 2014, Bassett produced a copy of the QuickBooks file containing the books of Nevada Northern Railway Museum.
- Bertsch Firm requested a “Copy of QuickBooks file or other accounting software utilized” for GB&N. Gianoli Husbands Firm responded with: “To the knowledge of the current Foundation Management Board and Executive Director, no such files exist”

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<sup>35</sup> The so-called “Profit & Loss Prepared by S&S Shortline Leasing CPA” does not contain proper footnotes and other information required by the American Institute of Certified Public Accountants.

Recommendations: GB&N should maintain a separate QuickBooks file for all transactions, whether paid by the Foundation or through GB&N.

- ii. **Board Concern** - What has been the nature of the relationship between the present keeper of the books (Joan Bassett) and the Foundation and The Railway? - why is she apparently still keeping the books after that issue was raised as a "red flag" in the most recent yearly audit conducted by Hinton Burdick?

Findings: As indicated in the report on pages 5 through 6, internal controls within an organization should address the areas of Adequate Monitoring and Separation of Duties. An organization with a limited number of employees increases the difficulty in obtaining a separation of duties where no single employee has too much responsibility. The difficulty increases when family members are involved in the monitoring and implementation of the internal controls. The current situation with the Executive Director and bookkeeper being husband and wife creates a difficulty in achieving an internal control system with appropriate separation of duties.

Recommendations: In order to maintain Adequate Monitoring and Separation of Duties, the Foundation should adopt a policy whereby family members cannot possess too much responsibility within the accounting functions of the Foundation. This can be achieved by hiring an unrelated individual to control the Foundation's accounting functions.

*D. Potential Threats to Nonprofit Status*

Identification of any activities, past or present, which jeopardize the Foundation's 501-3C (*sic*) tax status with the IRS.

- i. **Board Concern** - Internal financial transactions such as the executive director selling to himself or holding property previously associated with or belonging to the Foundation.

Recommendations: Transactions involving a related entity should always require additional documentation and appropriate approval by individuals not involved in the transaction. All transactions between related parties should be disclosed to the Board of Trustees for approval.

- ii. **Board Concern** - The Chairman of the Foundation Board of Management directing business transactions to the financial institution in which he has an ownership interest and/or other business contracts to his relatives.

Recommendations:

As indicated in the above recommendation D(i), transactions involving a related entity should always require additional documentation and appropriate approval by individuals not involved in the transaction. All transactions between related parties should be disclosed to the Board of Trustees for approval. If a party to the transaction possesses voting rights over the transaction, the party should remove themselves from the voting process. When possible, the Foundation should obtain several bids for the same service/product. The Board of Trustees should create and adopt a written policy involving related party transactions and the documents required for approval by the Board of Trustees.

- iii. **Board Concern** – The motive for the absence of financial instruments establishing the terms of private loans made between members of the management board and anyone employed by the foundation.

Recommendations:

As indicated in the above recommendations D(i) and D(ii), all transactions between related parties should be disclosed to the Board of Trustees for approval. If a party to the transaction possesses voting rights over the transaction, the party should remove themselves from the voting process. When possible, the Foundation should obtain several bids for the same service/product. The Board of Trustees should create and adopt a written policy involving related party transactions and the documents required for approval by the Board of Trustees.



- iv. **Board Concern** – Have storage fees been paid to the Foundation on the privately owned rail cars of those employed by the Foundation which are stored on Foundation property?

Recommendations:

As of the date of this report, the NNRM QB File does not report income from the storage of “privately owned rail cars of those employed by the Foundation which are stored on Foundation property.”

- v. **Board Concern** – Which entities currently own all or any portions of the trackage rights from Ruth to Cobre Junction?

Findings:

According to the Surface Transportation Board (“STB”), on August 14, 2009, S&S Shortline Leasing, LLC filed a verified Notice of Exemption under 49 C.F.R § 1150.31,

“to operate approximately 127.9 miles of rail line owned by the City of Ely (City) and the White Pine Historical Railroad Foundation, (Foundation), between milepost 0.0 at or near Cobre, and milepost 127.9 at or near McGill Junction, in White Pine and Elko Counties, NV.”

In the November 18, 2014 meeting, Bassett indicated that he was unaware if S&S are utilizing the 45G tax credits in the same manner as the Montana Rail Link transaction described in item B(ii) on page 57 of this report.

Recommendations:

As indicated in concern B(v) on page 61, due to the lack of records produced relating to the S&S Agreement, we deferred this issue to the City Council to request the records directly from S&S.

## **Schedule of Recommendations**

The following is a schedule of the recommendations proposed throughout this report.

### **Internal Control Deficiencies (Page 9):**

- The Executive Director of the Foundation should create a written remediation plan for each deficiency (“Remediation Plan”). Each deficiency should fall within the following categories:
- Policy and procedures – can the deficiency be fixed by: improving documentation; improving lines of authority and/or segregation of duties; updating/upgrading the information systems, or a combination of each;
- Personnel – can the deficiency be fixed by adding additional staff and/or adding experienced staff;
- Training - can the deficiency be fixed by investing in training for the current staff and volunteers, and orientation training for new hires/volunteers
- Board procedure - can the deficiency be fixed by making a change to the Board of Trustees, such as adding an audit committee.
- The Remediation Plan should include a detailed description of steps the Executive Director plans to implement in order to remediate each deficiency;
- Once the Remediation Plan has been drafted, the Management Board should review the plan for approval. If not approved, the Remediation Plan shall be returned to the Executive Director with instructions.
- Once the Remediation Plan has been approved, the Management Board should present the Remediation Plan to the Board of Trustees for approval; If not approved, the Remediation Plan shall be returned to the Management Board with instructions.
- Once approved by the Board of Trustees, the Management Board should ensure the Remediation Plan is implemented by the Executive Director;
- The Management Board should set specific deadlines by which the Executive Director shall report that the Remediation Plan is being implemented correctly;
- The Management Board should give a written report to the City Council verifying that the plan is being implemented correctly and of additional changes that might be needed to be made to the Remediation Plan.

### **Structure and governance of the Foundation (Page 18):**

- The Foundation’s Board of Trustees and Management Board should create a policy for:
  - Conflicts of interest;
  - Whistle Blower protections; and

- Document retention and destruction policy
- The Management Board and Board of Trustees should review the annual *Form 990 - Return of Organization Exempt from Income Tax* prior to filing. Any questions and/or comments should be addressed prior to filing.
- The City Council should create and adopt a written list of the roles and responsibilities for the following Foundation layers (an example is included to this report as **Exhibit D**):
  - Board of Trustees;
  - Management Board;
  - Executive Director;
- All layers of the Foundation should be informed to the roles and responsibilities for each layer. This will inform each layer of the Foundation as to the responsibilities of all;
- The City Council should create and adopt a formal procedure for communication between each layer. Such procedures should include the following:
  - The process of how each layer can report positive/negative issues concerning the Foundation to other layers;
  - The process of how each layer should request information from the other layers;
  - How to keep each layer informed as to the activities of each other layer.

**Great Basin & Northern (Page 25):**

- GB&N should open a bank account under its own name and EIN;
- GB&N should prepare an annual budget for presentation to Board of Trustees for approval;
- GB&N should pay for all expenses associated with its own operations;
- GB&N should maintain a separate QuickBooks file for all transactions, whether paid by the Foundation or through GB&N;
- GB&N should maintain a complete set of all minutes for all meetings since incorporation to present and going forward;
- As a subsidiary of the Foundation, the Foundation Board of Trustees should require the GB&N Board of Directors to report on a consistent basis. Said report format should be approved by Foundation's Board of Trustees.

**Cash Flow (Pages 28-29):**

- The Director should review the QuickBooks' bank account daily to look for any deficit balances.
- The individual(s) in charge of disbursing funds should not allow a payment to be disbursed without sufficient funds in the bank account to cover the disbursement.
- The individual(s) in charge of disbursing funds should not allow a payment to be disbursed without applicable funds in the bank account;

- Bank reconciliations should not be performed by signatories on the bank accounts.
- The individual in charge of reconciling the bank account shall notify all members of the Management Board and Board of Trustees each time the Foundation is charged for an overdraft charge. Notification should be delivered via email and/or a formal letter and indicate the reason for each overdraft charge.

**Foundation's Designated Cash Reserves (Page 33):**

- The Foundation should set aside funds into a segregated bank account for the deferred grants;
- The grants designated in
- **Table 4** should be further examined by the Foundation to determine if the grant money should be returned to the grantor or if the Foundation can take the funds into the unrestricted account;
- The Foundation should set aside funds into a separate segregated bank account for the gift certificates and prepayments.
- The gift certificates need to be examined by an attorney to determine if the certificates fall within NRS 120A.520.

**Foundation's use of promissory notes and lines of credit (Page 50):**

- Prior to the Foundation borrowing any funds, the Foundation should present a formal request to the Board of Trustees for each amount requested. A sample of said REQUEST TO BORROW FUNDS is attached as **Exhibit E**;
- Upon the approval by the Board of Trustees to borrow funds for any grant, the Foundation shall deposit all borrowed funds into a segregated bank account, separate from the General Checking Account. The segregated bank account shall pertain to all grant transactions, thus ensuring that grant income and expenses are not comingled with other sources of funds;
- Once an expense is paid by the Foundation, an amount equal to the expense should be recorded as a **debit** to Grants Receivable and a **credit** to Grant Income. This transaction indicates that the Foundation incurred the expense with the intent that it will be matched by the Grantor;
- Once the Foundation receives the matching funds from Grantor, the funds shall be deposited into the segregated bank account;
- Once in the segregated bank account, the matching grant funds shall be applied against the amount borrowed;
- Once the amount borrowed has been paid back, the Executive Director shall submit a report of the borrowed funds to the Board of Trustees. A sample of said REPORT OF BORROWED FUNDS is attached as **Exhibit F**;
- Interest on borrowed funds shall be paid through the General Operating Account;

- The Executive Director shall submit, to the Board of Trustees for approval, a separate request to borrow funds for operational expenses;
- All changes to a loan's terms should be submitted to the Board of Trustees for discussion and approval;
- The Board of Trustees should discuss the reclassification of Note C, between Mark S. Bassett and J. Joan Bassett and The First National Bank of Ely, as a donation from Bassett to the Foundation.

**Segregation of Grants (Page 53):**

- All grants are deposited into a segregated bank account;
- All grant expenses are paid from segregated bank account;
- The segregated bank account is reconciled every month;
- A Schedule of grant money in segregated bank account is created and reconciled every month;
- Non-grant funds cannot be deposited into or paid from segregated bank account;
- All future grants should be reviewed for determination of additional segregation;
- All grant transactions should be shown on the Profit & Loss as "Grant Income" and "Grant Expense";
- Only the administrator should be allowed to create a new account on the Foundation's Chart of Accounts.

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- White Pine Historical Railroad Foundation, Inc. (2012). By-laws of the White Pine Historical Railroad Foundation, Inc. .
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# **EXHIBIT A**

# **White Pine Historical Railroad Foundation Inc.**

## **d/b/a Nevada Northern Railway Museum**

### (Proposed) Roles and Responsibilities

#### **Board of Trustees**

- Appoints Management Committee
- Approves:
  - Annual Tax Return of Foundation
  - Auditor for Foundation
  - Capital Improvements over a certain amount
  - Foundation's budget
  - Loans, notes, lines of credit and all others types of financing over a certain amount
  - Purchase, Sale and/or Transfer of Foundation assets over a certain amount
- Development and implementation of Long-Term Strategic Plan
- Overall oversight of the Foundation's assets and liabilities
- Reports directly to citizens of the City of Ely, Nevada.

#### **Management Board**

- Propose to Board of Trustees for approval:
  - Annual Tax Return of Foundation
  - Auditor for Foundation
  - Capital Improvements over a certain amount
  - Foundation's budget
  - Loans, notes, lines of credit and all others types of financing over a certain amount as defined by Board of Trustees
  - Purchase, Sale and/or Transfer of Foundation assets over a certain amount as defined by Board of Trustees
- Create, maintain and modify Internal Controls of Foundation
- Hire and monitor performance of Executive Director
- Provides a report to Board of Trustees on a periodic basis as defined by Board of Trustees. Said outline of report shall be approved by Board of Trustees and include topics such as: Balance Sheet, Profit & Loss, Grant Reconciliations, and any other reported desired by the Board of Trustees
- Reports directly to Board of Trustees
- Cannot approve the hypothecation of Foundation assets
- Prohibited from any power not specifically delegated to it



## **Director**

- Propose to Management Board for approval:
  - Annual Tax return
  - Budget
- Operates Gift Shop and Museum
- Application, Management and Reporting for Grants
- Reports directly to Management Committee
- Responsible for bookkeeping of Foundation
- Hire and monitor performance of employees
- Responsible to present annual budget to Management Committee
- Inform employees and volunteers of the policies and procedures of the Foundation
- Ensure that employees and volunteers follow the policies and procedures of the Foundation
- Ensure employees and volunteers possess the necessary expertise to carry out their jobs

# **EXHIBIT B**

**White Pine Historical Railroad Foundation Inc.  
d/b/a Nevada Northern Railway Museum**

(Proposed) Request to Borrow Funds

Date of Request: \_\_\_\_/\_\_\_\_/\_\_\_\_ Grant Identification: \_\_\_\_\_

Grantor Name: \_\_\_\_\_ Grantor's approval limit: \$\_\_\_\_\_.\_\_\_\_

Purpose of Grant: \_\_\_\_\_

Amount Requested: \$\_\_\_\_\_.\_\_\_\_ Name of Lender: \_\_\_\_\_

Estimated time for repayment: \_\_\_\_\_ Expected Interest Rate<sup>1</sup>: \_\_\_\_\_%

Printed Name of Individual Requesting Funds: \_\_\_\_\_

Signature of Individual Requesting Funds: \_\_\_\_\_

Please attach following documents:

1. Copy of Submitted Grant Application
2. Copy of Grant Approval letter from Grantor
3. Projected Budget of Project

Date Request heard by Board of Trustees: \_\_\_\_/\_\_\_\_/\_\_\_\_

Signature of Authorized Board of Trustees: \_\_\_\_\_

Printed Name of Authorized Board of Trustee: \_\_\_\_\_

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<sup>1</sup> If Actual Interest Rate is 1% above the Expected Interest Rate, the Foundation must have separate approval of the Board of Trustees.

# EXHIBIT C

**White Pine Historical Railroad Foundation Inc.**  
**d/b/a Nevada Northern Railway Museum**

(Proposed) Report of Borrowed Funds

Date of Report: \_\_\_\_ / \_\_\_\_ / \_\_\_\_

Grant Identification: \_\_\_\_\_

Grantor Name: \_\_\_\_\_

Grantor's approval limit: \$\_\_\_\_\_. \_\_\_\_

Purpose of Grant: \_\_\_\_\_

Amount Borrowed: \$\_\_\_\_\_. \_\_\_\_

Date Borrowed: \_\_\_\_ / \_\_\_\_ / \_\_\_\_

Name of Lender: \_\_\_\_\_

Actual Interest Rate: \_\_\_\_\_%

Amount of Grant Received: \$\_\_\_\_\_. \_\_\_\_

Date Paid Back: \_\_\_\_ / \_\_\_\_ / \_\_\_\_

Please attach following documents:

1. Copy of Original Request to Borrow Funds
2. Copy of Board of Trustees Minutes Approving Request to Borrow Funds
3. Description of Expenses Paid including: payment date, check #, vendor name, payment amount
4. Copy of loan statements from borrow date to date paid back.

Signature of Executive Director: \_\_\_\_\_

Printed Name of Executive Director: \_\_\_\_\_