



NOTICE OF MEETING

The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at 5:00 p.m. on Wednesday, March 25, 2015 in the Chateau, 955 Fairway Boulevard, Incline Village, Nevada.

- A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*
- B. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.

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

- C. GENERAL BUSINESS ITEM (for possible action)
 - 1. Recommendation of Audit Firm for Audit Services for Fiscal Year Ending June 30, 2015, by the Audit Committee to the Board of Trustees, of Eide Bailly, LLP (formerly Kafoury Armstrong & Co.) (Requesting Staff Member: Director of Finance, Accounting, Risk Management and Information Technology Gerry Eick) - **pages 1 - 2**
- D. APPROVAL OF THE MEETING MINUTES OF DECEMBER 10, 2014 (for possible action) - **pages 3 - 27**
- E. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration; see **Public Comment Advisory Statement** above.
- F. ADJOURNMENT (for possible action)

CERTIFICATION OF POSTING OF THIS AGENDA

I hereby certify that on or before Friday, March 20, 2015 at 9:00 a.m., a copy of this agenda (Audit Committee Session of March 25, 2015) was delivered to the post office addressed to the people who have requested to receive copies of IVGID's agendas; copies were either faxed or e-mailed to those people who have requested; and a copy was posted at the following six locations within Incline Village/Crystal Bay in accordance with NRS 241.020:

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

/s/ Susan A. Herron, CMC

Susan A. Herron, CMC

Clerk to the Board of Trustees (e-mail: sah@ivgid.org/phone # 775-832-1207)

Board of Trustees: Jim Hammerel, Chairman, Jim Smith

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

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

Incline Village General Improvement District

Incline Village General Improvement District is a fiscally responsible community partner which provides superior utility services and community oriented recreation programs and facilities with passion for the quality of life and our environment while investing in the Tahoe basin.

893 Southwood Boulevard, Incline Village, Nevada 89451 • (775) 832-1100 • FAX (775) 832-1122

www.yourtahoepace.com

MEMORANDUM

TO: Audit Committee

FROM: Gerald W. Eick CPA CGMA
Director of Finance, Accounting, Risk Management and Information
Technology

SUBJECT: Recommendation of Audit Firm for Audit Services for Fiscal Year
Ending June 30, 2015, by the Audit Committee to the Board of
Trustees, of Eide Bailly, LLP (formerly Kafoury Armstrong & Co.)

DATE: March 10, 2015

I. RECOMMENDATION

That the Audit Committee recommend that the Board of Trustees designate Eide Bailly, LLP (formerly Kafoury Armstrong & Co. a Nevada based firm) as the District's audit firm for the fiscal year ending June 30, 2015, under their multiyear contract as outlined under the financial section.

II. BACKGROUND

The Audit Committee is meeting March 25, 2015 to ratify the selection of the District's auditor. On the assumption that meeting finds it in order to recommend Eide Bailly, LLP (formerly Kafoury Armstrong & Co.), a memo has been prepared to document the designation and recommendation to the Board of Trustees. The Engagement Letter has been received and once reviewed it will be sent to the Audit Committee Chair for signature.

District Staff will notify the State Department of Taxation of our designation on or before March 31, 2015. As required by Nevada Revised Statute 354.624 and Nevada Administrative Code 354.705, each local government is required to designate an auditor or firm annually, not later than 3 months before the close of the fiscal year for which the audit is to be made.

At the direction of the Audit Committee, staff prepared and sent out a request for audit services in 2011 that resulted in Kafoury Armstrong & Co's selection under a multiyear engagement plan to control fee increases. The Audit Committee agreed that the multiple year fee schedule presented in Kafoury, Armstrong & Co. audit proposal presented an opportunity for cost savings over time and it

would be prudent to consider this option and incorporate it into its award recommendation. In 2014, Eide Bailly, LLP has merged with Kafoury Armstrong & Co. and has indicated a willingness to continue their engagements. The District has already been introduced to the Engagement Shareholder assigned to our audit.

III. FINANCIAL IMPACT AND BUDGET

The following fee information was presented by Kafoury, Armstrong & Co. and was accepted by the Audit Committee:

Fiscal Year Ending	*Annual Fee
June 30, 2011	\$ 40,000
June 30, 2012	\$ 42,000
June 30, 2013	\$ 45,000
June 30, 2014	\$ 47,000
June 30, 2015	\$ 47,000

** The single audit fee is inclusive in the Annual Fee*

Also, the out of pocket travel cost are estimated not to exceed \$3,500 and are outside of the annual fees list above. (Now that our engagement team will be traveling from Reno, we could see a reduction in these costs for 2015.)

IV. COMMENTS

District Staff has received an engagement letter and Staff has discussed a tentative set of dates with fieldwork occurring in May and September with a delivery of the Audit Report in time to meet statutory requirements November 30, 2015 with acceptance by the Board of Trustees in December 2015.

MINUTES

AUDIT COMMITTEE MEETING OF DECEMBER 10, 2014 Incline Village General Improvement District

The Audit Committee meeting of the Board of Trustees of the Incline Village General Improvement District was called to order by Chairman Jim Hammerel on Wednesday, December 10, 2014 at 5:00 p.m. at the Boardroom located at 893 Southwood Boulevard, Incline Village, Nevada.

A. CALL TO ORDER

Chairman Hammerel called the meeting to order at 5 p.m.

B. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS

On roll call, present were Trustees Jim Hammerel, Joe Wolfe, and Jim Smith. Also present were District Staff Members Director of Finance, Accounting and Risk Management Gerry Eick, Controller Lori Pommerenck, and Director of Human Resources Dee Carey. Members of the public present were Tim Callicrate, Kendra Wong, Jim Smith, Aaron Katz, Laurel Jackson, Dan Carter, Gigi Kamila, Bruce Simonian, Bill Devine and others. *(18 individuals in attendance which includes Trustees, Staff and members of the public.)*

C. APPROVAL OF THE MEETING MINUTES OF APRIL 9, 2014

Trustee Wolfe made a motion to approve the minutes of the April 9, 2014 Audit Committee Meeting as submitted and it was seconded by Trustee Smith. Chairman Hammerel called the question and the motion was passed unanimously.

D. GENERAL BUSINESS (for possible action)

D.1. Presentation and Acceptance of June 30, 2014 Comprehensive Annual Financial Report including an Unqualified Opinion by the District's Auditor (Requesting Staff Member: Director of Finance, Accounting, Risk Management and Information Technology Gerry Eick)

Director of Finance, Accounting, Risk Management and Information Technology Gerry Eick went over the submitted materials and noted that since the packet was published, two pages were identified as having typographical errors and corrected pages were distributed with the addition

that there was no change in the net operating results. Director of Finance, Accounting, Risk Management and Information Technology Eick said that considering the Board of Trustees is moving towards one business meeting per month, he would suggest that going forward, we stop trying to magically push this meeting into November and that going forward he would recommend acceptance occurring in December. Trustee Smith said doesn't the report have to be accepted within five months of the end of the fiscal year. Director of Finance, Accounting, Risk Management and Information Technology Gerry Eick said no, it has to be delivered, to the District within five months and then accepted within thirty days of that delivery and that in this year's Legislative session that timetable is being reconsidered.

Director of Finance, Accounting, Risk Management and Information Technology Eick introduced Kafoury Armstrong's Executive Ms. Laurel Jackson. Ms. Jackson presented the results of the Audit report and then followed on, as a result of a telephone conversation with Trustee Smith prior to this meeting, a very detailed review of the audit process.

Trustee Wolfe asked, when an error is found, what is the next step. Ms. Jackson said that they check in to it and access the adjustment then, depending on the level, they may pass on it. At the end of the engagement, they will reaccess. The readers of the Audit Report are more than the public and could be entities such as the Federal government, etc. so they look at all the factors.

Chairman Hammerel said that the Auditors can only assess the statements they are given and then do their testing on them. Ms. Jackson said that the Auditors receive the trial balance by fund that supports all the transactions that occur in the District which is reconciled against the financial statements and then testing is done on that information and the Auditors go into the details as well as the source documents.

Chairman Hammerel asked what is material for the District. Ms. Jackson said there is a mathematic calculation that she didn't have with her but she gave a brief representative example.

Trustee Smith asked how many hours are involved in the District's Audit; Ms. Jackson said 400. Trustee Smith followed up by asking where is the most time spent. Ms. Jackson said it is spent upfront in planning, understanding internal controls, testing and analytics, and then wrap up.

Trustee Smith said this is the fourth year with the District so do you look backwards each year. Ms. Jackson said she does have a reengineering process and she does go through a planning process because she has to plan her budget. If she saw a lot of activity in an area, she would look at that area. The testing is based upon who does the most and not on the department. Additionally, they will look at transactions accomplished by new people. Trustee Smith asked if Ms. Jackson brought with her the summary of adjustments; Ms. Jackson said yes and there were two adjustments which were identified and given to them. Also, this year, the District wasn't required to the Single Audit Act. Trustee Smith asked what was the materiality used for the audit. Ms. Jackson said it was based on each opinion level and express opinion on each major fund so it is always on the General, Utility and Community Services Funds because they all meet the requirement of a major fund. The Beach Fund is identified as a major fund, by the District, so the District is getting an audit on all the funds.

Trustee Wolfe made a motion to adopt the June 30, 2014 unqualified audit report as submitted. Trustee Smith seconded the motion.

Chairman Hammerel opened the matter for public comment.

Aaron Katz said that he is asking the Audit Committee to not approve this report as it doesn't fairly present all areas. With the explanation provided today, the auditors only examine cash disbursement and receipts. The District has an underground currency known as IVGID bucks, Diamond Peak bucks, vouchers, etc. and he sent a detailed e-mail on this topic and noted that there is no reporting on these items. Also, we have the Sierra Nevada College agreement which is consideration and not cash so where is it reported. The Diamond Peak Ski Education Foundation is over \$100,000 so where is it reported or is it just ignored. The Auditor made a big deal about listing discounts because without that listing, it presents a bad picture. Discounts aren't reported so it is not an accurate picture. Part of this happens because the District isn't a government rather it is a business and that is admitted in the budget. Applying as a government just doesn't mesh and if you were looking at a business, it would be treated differently. When the public looks at it, it is not a clean bill and it is not on the up and up so he is asking for a change.

Margaret Martini said that she concurs with Mr. Katz as there is no method in place to accurately report expenditures in lieu of cash. There is no accurate way to number the giveaways, how many are out there, and how

many are planned in each venue so let's include the discounts. Everything has a cost related to it and accurate financial reporting should report this not just cash in and cash out. Until you can separate the venues and separate what is being given away, you need a different method of accounting and auditing. This audit isn't representative of what is going in and out for each venue.

Gigi Kamila said thank you for all of these meetings and noted that she has been attending them since the beginning. We all have a God and with many of her past experiences, it has been proven to her that her forethought is valuable and that she has a gift. What is of use is that she takes it with her and it brings magic and miracles. She decided not to run the world because there are others that have our best interests in their minds. Her work as a profit energy has been for large and small businesses and they have been receiving money and grants. She has brought others to this village as it is her that has put this village on the map and the new flight from Reno to London proves that.

Hearing no further public comment, Chairman Hammerel brought the matter back to the Committee and called the question – the motion was unanimously passed.

E. PUBLIC COMMENTS*

Ms. Jackson announced that she is leaving Kafoury, Armstrong and then she introduced Dan Carter who is the shareholder who will be replacing her on this engagement. Mr. Carter gave a brief overview of his background and distributed a letter about a merger.

Aaron Katz said, transferring back to the beginning, that he is asking that the substance of his remarks be included in the minutes of the meetings. Why do we have an Audit Committee, what is their function, what do they do, and can you give him those answers. Are you eliminating the confusion in the way the District reports? The term he uses is garbage in, garbage out because we are not pointed in the right direction so how can anyone find anything. There is no control by the auditors in the preparation of the financial statements and it is not the job of the Auditor to intervene but he thinks it is the Audit Committee's job to interject themselves. This committee should be made up of members of the community and those members should have the power to look at everything so they can go behind the scenes and find out what is really happening and then report out to the public. The Audit Committee, in his opinion, is worthless. He asked a member

of the Audit Committee if he looked at individual expenditures and his answer was no, not his job, well, that is your job. He is asking for a change to benefit the community.

Margaret Martini said she concurs with Mr. Katz again and noted that a committee was formed for the Diamond Peak Master Plan so what is more important as there would be no resistance in forming a committee that was made up of people of the financial sector. If you give this some serious consideration and did form a citizen committee who looked at each financial transaction, you might get some very productive ideas and we want more transparency as all we are getting is more slushing and no transparency. This is our money and those that are providing funds should have the right to look at it. She is urging you to do the same thing that was done with the Diamond Peak Master Plan which would be beneficial, open, transparent, and readily available.

F. ADJOURNMENT (for possible action)

The meeting was adjourned at 6:03 p.m.

Respectfully submitted,

Susan A. Herron, CMC
Clerk to the Board of Trustees

Attachments*:

**In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.*

Submitted by Aaron Katz: (22 pages) Written Statement to be attached to and made a part of the the written minutes of the IVGID Board of Trustees' Audit Committee Meeting of December 10, 2014 – Agenda Item D(1) – Acceptance of Proposed 2013-14 Comprehensive Annual (Audited) Financial Report (“The CAFR”)

**WRITTEN STATEMENT TO BE ATTACHED TO AND MADE A PART OF THE
THE WRITTEN MINUTES OF THE IVGID BOARD OF TRUSTEES' AUDIT
COMMITTEE MEETING OF DECEMBER 10, 2014 – AGENDA ITEM
D(1) – ACCEPTANCE OF PROPOSED 2013-14 COMPREHENSIVE
ANNUAL (AUDITED) FINANCIAL REPORT (“THE CAFR”)**

Introduction: Here Gerry Eick recommends the Audit Committee adopts the proposed CAFR¹ presented by the District’s auditor, Kafoury, Armstrong & Co. According to Mr. Eick², “the District’s auditor...ha(s)...issued an *unqualified opinion* on (last year’s financial reporting)...An unqualified (clean) opinion (according to Mr. Eick) which is the best audit report that can be issued (and) states that the financial statements are fairly presented in conformity with generally, accepted accounting principles” (“GAAP”).

Mr. Eick goes on to represent that our auditor’s proposed CAFR “includes a Report on Compliance and Internal Control in relation to the audit of the basic financial statements (and has)...reported no material weaknesses in our controls.”²

Because I take issue with the proposed CAFR and Mr. Eick’s representations concerning it, I have prepared this written statement.

The Auditor Has *Not* Told Us That the District’s Financial Statements are Fairly Presented in Conformity With GAAP; Gerry Eick and Steve Pinkerton Have! I wanted to see where in the CAFR our auditor expressed the opinion attributed by staff; i.e., “that (our) financial statements are fairly presented in conformity with generally, accepted accounting principles.” It turns out **NOWHERE!**

The one place where this representation is made appears at page 12 of the audit committee packet, and here is what it says:

“The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District’s financial statements for the fiscal year ended June 30, 2014, are fairly presented in conformity with GAAP.”

But pages 12-18 of the audit committee packet are part of the proposed CAFR’s “Introductory” section. Listen to what our auditor has to say about the Introductory Section of the proposed CAFR:

¹ That proposed CAFR appears at pages 5-98 of the packet of materials prepared by staff in anticipation of this evening’s audit committee meeting [“the audit committee packet” (see http://www.yourtahoeplace.com/uploads/pdf-ivgid/BOT_Audit_Packet_12-10-2014.pdf)].

² See page 1 of his November 5, 2014 Staff Memorandum which appears at pages 3-4 of the audit committee packet.

"The introductory and statistical sections (of this audit) have *not* been subjected to the auditing procedures applied in the audit...and accordingly, *we do not express an opinion or provide any assurance on them.*"³

At page 12 of the audit committee packet Mssrs. Eick and Pinkerton tell us that "the unqualified Independent Auditors' Report appears in the Financial Section" of the proposed CAFR. So to be fair, I examined pages 33-71 (the "Financials" section) of the audit committee packet looking for this magic language. And again; **NOWHERE!**

No, the auditor has NOT concluded as staff represents; GERRY EICK AND STEVE PINKERTON HAVE!

What Was the REAL Limited Purpose of This Audit? To determine the answer to this question I quote from the proposed CAFR itself: "The purpose of this report is *solely* to describe the scope of our testing of internal control and compliance and the results of that testing⁴, and *not to provide an opinion* on the effectiveness of the entity's internal control or...compliance."⁵

But wait; haven't Mssrs. Eick and Pinkerton told us that the audit "report(s) no material weaknesses in our controls?"² So exactly **who is telling the truth?**

The Limited Audit Expresses No Opinion Whatsoever Insofar as the Effectiveness of IVGID's Internal Control: Again I quote from the proposed CAFR itself: This "audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements...(Although) the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements...(it is) *not* for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, *we express no such opinion.*"⁶

So again, exactly **who is telling the truth?**

The Limited Audit Expresses No Opinion Whatsoever Insofar as the Deficiency or a Combination of Deficiencies in IVGID's Internal Control: Again I quote from the proposed CAFR itself: "A deficiency in internal control exists when the design or operation of a control does not allow management or employees...to prevent, or detect and correct, misstatements on a timely basis...(Given) our

³ See page 22 of the audit committee packet.

⁴ Although NRS 354.486 describes a myriad of purposes for which an audit may be commissioned, as you can see here IVGID has designated just one; "evaluating internal accounting controls over financial reporting of the handling of the public money and public property" [see NRS 354.486(4)].

⁵ See page 97 of the audit committee packet.

⁶ See page 21 of the audit committee packet.

consideration of internal control was...*not* for the purpose of expressing an opinion on the effectiveness of the District's internal control...*we do not express an opinion on the effectiveness of the District's internal control.*"⁷

Moreover, the proposed CAFR tells us that "a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis...may (very well) exist *that have not been identified.*"⁷

So again I ask, exactly ***who is telling the truth?***

The *Limited Audit Expresses No Opinion Whatsoever That IVGID's Financial Statements are Free From Material Misstatement:* Again I quote from the proposed CAFR itself: "Management (*rather than the auditor*) is responsible for the preparation and fair presentation of these financial statements...includ(ing) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error."⁷

In other words, just like the IVGID Board, the auditor has abdicated all responsibility for rooting out material misstatements in the District's financial reporting to IVGID staff! This is the equivalent of putting the fox in charge of staffing the chicken coop.

The *Limited Audit Expresses No Opinion Whatsoever That IVGID is in Compliance With Laws, Regulations and Contracts:* Again I quote from the proposed CAFR itself: "providing an opinion on compliance with...laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts...*was not an objective of our audit, and accordingly, we do not express such an opinion.*"⁷

The *Limited Audit Expresses No Opinion Whatsoever Insofar as Management's Overview and Analysis of the District's Financial Statements are Concerned:* Again I quote from the proposed CAFR itself: although "accounting principles...require that...management's discussion and analysis on pages 11 through 20 be presented to supplement the basic financial statements...*we do not express an opinion or provide any assurance on the information* because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance."³

The *Limited Audit Expresses No Opinion Whatsoever Insofar as its Statistical Section is Concerned:* Again I quote from the proposed CAFR itself: "the introductory (pages 1-7) and statistical (pages 56-77) sections (of this audit) have *not* been subjected to the auditing procedures applied in the audit...and accordingly, *we do not express an opinion or provide any assurance on them.*"⁴

⁷ See page 96 of the audit committee packet.

So What Exactly Does Our *Limited* Audit Really Conclude? *NOT MUCH!* And this is the reason why I and a number of other citizens I know feel that CAFRs, like this one, are worthless. We want to know the answers to the many questions which the auditor has stated it “*expresses no opinion.*”

Why Then Does IVGID Commission an Essentially Worthless Audit? Because Nevada law allows it. Nevada has adopted the “Local Government Budget and Finance Act” [“the LGBFA” (NRS 354.470)]. “Local governments” subject to the LGBFA include “every political subdivision or other entity which has the right to levy or receive money from *ad valorem* or other taxes or any mandatory assessments, and includes...districts organized pursuant to chapter...318” [NRS 354.474(1)(a)]. Given IVGID was “organized pursuant to chapter (NRS) 318” and has “the right to levy...money from *ad valorem*...taxes” (NRS 318.225), it is subject to the LGBFA.

Although the LGBFA mandates that “each local government shall provide for an annual audit of all of its financial statements” [NRS 354.624(1)], “each annual audit must...be a financial audit conducted in accordance with generally accepted auditing standards in the United States (and)...cover the business of the local government during the full fiscal year” [NRS 354.624(4)]. Although IVGID could commission a forensic financial audit (see discussion below), it has chosen to commission a far less invasive version; i.e., one which merely “ascertain(s) whether financial transactions have been properly recorded⁸...(and) fairly present in all material respects the financial position and the results of (IVGID’s) financial operations and cash flows...in accordance with” GAAP.

Moreover, in My Opinion the Proposed CAFR Presents an *UNFAIR* Presentation of IVGID’s Financial Position: On December 8, 2014 I wrote a letter to Kafoury, Armstrong & Company sharing my opinion that the proposed CAFR represents an “*unfair* presentation” of IVGID’s financial position. My reasons were because, in part, the proposed CAFR fails to: report whether the material financial transactions I pointed to in the letter have been properly recorded, and fails to evaluate internal accounting controls over financial reporting of the handling of the public money and public property⁹. I asked that our auditor address these concerns, and that it modify the proposed CAFR so that it complies with the letter if not spirit of the NRS¹⁰. Because it has refused¹¹, I object and publicize my objections.

⁸ Does anyone really think IVGID doesn’t properly record all of its revenue sources and expenditures?

⁹ A copy of my letter (a copy of which was sent to the Board) is attached as Exhibit “A” to this written statement.

¹⁰ See NRS 354.472(1)(e).

¹¹ On December 10, 2014 I received a letter from Laurel D. Jackson of Kafoury, Armstrong & Company stating that her firm continues to express “an unmodified opinion on (IVGID’s)...financial statements for the fiscal year ended June 30, 2014.”

Conclusion: I urge the Audit Committee and the public to read the many “*qualifications*” in the proposed CAFR to which I have referenced, and then to consider them in light of staff’s self-serving statements to the effect that our auditor has given us “an unqualified (clean) opinion” insofar as our financial reporting is concerned¹². As we can see, no such opinion has been given. In order to secure such an opinion, a completely different type of audit is required and that’s why I and others have asked for a forensic audit.

Trustee elect Kendra Wong will tell you that a forensic audit is only used in cases of suspected embezzlement or fraud and without some credible evidence of either, she feels a forensic audit is a waste. But I disagree. “A forensic audit is the process of reviewing a person’s or company’s financial statements to determine if they are *accurate and lawful*.”¹³ Although “forensic accounting is most commonly associated with the IRS and tax audits...it may also be commissioned by private companies to establish a complete view of a single entity’s finances.”¹³ Stated differently, “forensic audits are used wherever an entity’s finances present a legal concern.”¹³ And since here they *do* present legal concern, I feel a forensic audit is appropriate.

Trustee elect Kendra Wong will tell you that forensic audits are too expensive. Maybe. But when the Board is wasting over \$160K on a Diamond Peak Master Plan Update (“the DPMP”) the public *doesn’t* want, or a \$263K public indoctrination of the alleged merits of the DPMP, or a \$80K study of our beaches, or a \$80K+ study of the Mountain Golf Course Clubhouse, or a \$80K+ “branding” of Incline Village, or \$50K to address staff’s “culture,” it would appear that the cost of a forensic audit is money better spent.

I also ask the Board and the public to examine each of the transactions I point to in Exhibit “A” and to ask themselves: how exactly are they reported, if at all, in the proposed CAFR; and depending upon the answers, do you honestly believe that the proposed CAFR presents a full, fair, accurate and complete appraisal, in all material respects, of IVGID’s financial preparations, plans, policies and administration?

And You Wonder Why the Recreation Facility Fee Which Subsidizes This Incredible Staff “Spin” is Out of Control? I’ve now provided more answers.

Respectfully, Aaron Katz (Your Community Watchdog Because No One Else Seems to be Watching).

¹² Remember, the proposed CAFR instructs that its “purpose...is *solely* to describe the scope of our (auditor’s qualified) testing of internal control and compliance and the results of that testing”⁴ and *not any other purpose*⁵ such as the self-serving purpose promoted by staff.

¹³ See <http://thelawdictionary.org/article/what-is-a-forensic-audit/>.

December 8, 2014

Kafoury & Armstrong

Attention: **Laurel D. Jackson, CPA**
301 W. Tolas Place
Fallon, NV. 89406
(775) 423-6505
e-mail • ljackson@kafoury.com

Re: Proposed Incline Village General Improvement District ("IVGID") 2014 Comprehensive Annual Financial Report ("the proposed CAFR")

Dear Ms. Jackson:

As you know I am a resident of Incline Village, NV. somewhat familiar with IVGID's financial reporting to the *public* (as contrasted with its secret internal reporting). Given I and others believe IVGID's financial reporting to the public leaves very much to be desired; and its staff refuses to share many of its particulars other than publicly approved budgets, monthly operating income statements and yearly CAFRs asserting they are internal documents¹, rightly or wrongly, the public looks to IVGID's auditor to "enabl(e it and)...taxpayers...to be (fully and fairly) apprised (*in all material respects*) of (IVGID's)...financial preparations, plans, policies and administration."²

I have examined the CAFR and have a number of concerns because in my opinion it represents an "*unfair* presentation" of IVGID's financial position because, in part, it fails to: report whether the material financial transactions I will point to have been properly recorded³, and to evaluate internal accounting controls over financial reporting of the handling of the public money and public property⁴. I ask your firm address these concerns, and that it modify its proposed CAFR prior to December 10, 2014 when the IVGID Board proposes accepting it, so that it complies with the letter if not spirit of the NRS². If your firm requires additional time to address these concerns, I ask it request an extension of time from the IVGID Board. My concerns are as follows:

The Failure to Audit Each "Major" Accounting Fund: Your firm's "Report" to the IVGID Board ("the Board") represents that it has "audited (and presumably reported on)...each *major* (accounting) fund." Yet I believe your firm has failed to report on a number of IVGID's major funds. What represents a "major" accounting fund? Given the CAFR reports on IVGID's Beach Fund which in 2012-13 reported but \$671,230 of net "sales and service fee" revenue, I submit this is the financial threshold which separates "major" from "minor." Given this financial threshold and the fact that the accounting funds which follow separately report summaries of revenues and expenses in the budget, I and others believe that the CAFR fails to report "Revenues, Expenses and Changes in Net Position" for the follow-

¹ Which means many of the financial records your firm examines as auditor are hidden from the public.

² See NRS 354.472(1)(e).

³ See NRS 354.486(2).

⁴ See NRS 354.486(3).

ing accounting funds: Championship Golf⁵, Mountain Golf⁶, Facilities⁷, Ski⁸, and Community Programming⁹ (aka the Recreation Center and Parks¹⁰). I believe your firm's failure to report on these major accounting funds has contributed to the improper recording of financial transactions and thus the "unfair presentation" of IVGID's financial position.

Application of the Wrong GAAP: Although IVGID is a political subdivision, it readily admits it "functions more as a business (than a government) because of the enterprise nature of most of its activities¹¹." In other words, its many commercial "for profit" business activities that no other political subdivision I and others I know of exercise. Thus in the opinion of myself and others, your firm's application of GAAP for governments¹² *rather than* businesses, has led to an "unfair...present(ation) in all material respects (of IVGID's)... financial position and the results of (its) financial operations and cash flows...in accordance with generally accepted accounting principles in the United States¹³." I believe your firm's application of the incorrect GAAP has contributed to the improper recording of financial transactions and thus the "unfair presentation" of IVGID's financial position.

Property Owner Discounts on Entry Fees: Your firm has included this sales allowance to revenue entry on two schedules: "Revenues, Expenses and Changes in Net Assets" for IVGID's Community Services and Beach Enterprise Funds. Why? Your firm was first retained to prepare IVGID CAFRs commencing with fiscal year 2010-11. Your firm apparently had an issue with the way in which IVGID's previous auditor had evaluated enterprise sales and service fees revenues because higher revenues were being reported than those actually generated because of IVGID's practice of granting "discounts."

⁵ Approximately \$2,630,500 of reported sales and fee revenues (see page 86 of IVGID's 2014-15 operating budget).

⁶ Approximately \$613,800 of reported sales and fee revenues (see page 90 of IVGID's 2014-15 operating budget).

⁷ Approximately \$587,800 of reported sales and fee revenues (see page 94 of IVGID's 2014-15 operating budget).

⁸ Approximately \$5,308,900 of reported sales and fee revenues (see page 102 of IVGID's 2014-15 operating budget).

⁹ Approximately \$1,142,600 of reported sales and fee revenues (see page 114 of IVGID's 2014-15 operating budget).

¹⁰ Approximately \$882,900 of reported sales and fee revenues (see page 116 of IVGID's 2014-15 operating budget).

¹¹ See page 13 of IVGID's 2013-14 operating budget.

¹² "GAAP is primarily issued by the Financial Accounting Standards Board ['the FASB' (whereas)] government entities...must follow a different set of GAAP standards as determined by the Governmental Accounting Standards Board ('the GASB')" (see <https://www.legalzoom.com/articles/general-accepted-accounting-principles-or-gaap-what-does-it-mean>). Your firm's "Report on Internal Control" declares that it has "audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States...as of and for the year ended June 30, 2014."

¹³ Contrary to NRS 354.486(3).

This first came to light in IVGID's reporting of Beach Enterprise sales and service fees revenues. In order to reflect entry fee discounts that were given to property owners and their guests, your firm insisted that the discounts be clearly disclosed as a negative sales allowance to revenue entry. And for the first time it was.

However curiously, your firm did not insist that IVGID implement the same practice insofar as its Community Services Fund was concerned (thus hiding the financial effect of those discounts insofar as the public were concerned). This non-uniform and inconsistent treatment of the financial effect of "Property Owner Discounts on Entry Fees" continued until your firm's audit for fiscal year 2012-13. Only then did your firm insist that IVGID include such an entry. And for the first time it was.

Notwithstanding, the Property Owner Discounts on Entry Fees Your Firm Has Reported Do Not Represent the Actual Property Owner Discounts Extended as Represented in IVGID's Community Services and Beach Enterprise Funds: I am informed that the "property owner discount" entries your firm has confirmed in these two accounting funds are *not* accurate; something your firm should know given it has purportedly reviewed the minutes of all Board meetings within the fiscal year wherein staff has reported that rather than reporting the *actual* discounts assigned to entry fees at each particular recreational facility, it has made an arbitrary and subjective allocation – 88% to Community Services and 12% to the Beaches. The public expects your firm to confirm the *actual* and proper discounts recorded because otherwise, these numbers are neither fair nor accurate and the picture painted can be misleading.

Discounts to Non-Property Owners on Entry Fees: Whatever the reasons your firm has insisted that IVGID report as a sales allowance to revenue, the discounts given to property owners on recreational venue user fees," should those discounts not be similarly and consistently applied to entry fee discounts given to persons *other than* property owners? If not, why not? And if so, why hasn't your firm insisted that IVGID similarly report the effect of these discounts? Or does your firm assert IVGID has reported the effect of these discounts by including them within the sales allowance to revenue entry labeled "*Property Owner Discounts on Entry Fees*?"

IVGID extends "discounts on entry fees" to many, many users other than "property owners." As your firm should know from reviewing the minutes of IVGID's Board meetings, its user fee discounting is massive, and it is regularly extended to the world's tourists. Yet nowhere does the proposed CAFR separately account for the financial effect of these discounts. Why does your firm insist that IVGID separately report "property owner" discounts on entry fees and not require the same thing for similar discounts given to "non-property owners?" Whatever the reasons, in the opinion of myself and others, the failure to separately report the financial effect of these discounts to the extent they effect sales and service fee revenues, renders IVGID's financials inconsistent, unfair, inaccurate, misleading and deceitful. I therefore ask that your firm insist IVGID separately report the financial effect of these similar discounts, system wide, as a sales allowance to revenue.

And just so your firm knows exactly what I am talking about, let me share some of the many, many examples of those discounts I am aware of:

Free Recreation and Tennis Center Access and Use to Sierra Nevada College ("SNC") Students and Faculty: For a number of years prior to and including fiscal year 2013-14, IVGID contracted with SNC [labeled a "Memorandum of Understanding" ("MOU")], a private college,

whereby the latter's students and faculty were given free access to and use of IVGID's Recreation and Tennis Centers, exclusive use of IVGID's athletic fields and Recreation Center for two parties/year, as well as special resident discount pricing (even though they were not residents entitled to such discounts) on Diamond Peak season passes. Rather than paying for this use with currency, SNC donated up to ten undergraduate scholarships to private, local, high school graduates, rather than IVGID (the one providing these recreational privileges). According to SNC this agreement was valued at \$250,000. According to I and others, the value of this arrangement to SNC was several hundreds of thousands of dollars more.

Free Recreational Privileges to Students, Faculty and Friends of Local Schools and Colleges: IVGID has entered into a "joint use agreement" with the Washoe County School District ("the WCSD") which extends access to and use IVGID's recreational facilities to all local schools including private Lake Tahoe School ("LTS") and private SNC, whereby the students, faculty, parents and friends of these schools and college are able to use these facilities for free for their sports teams'/other use.

Free/Discounted Exclusive Use of IVGID's Athletic Fields to "Favored" Groups: IVGID normally charges fees to persons who seek exclusive use of its athletic fields. But if you're a "favored" sports group such as AYSO, Little League, Pop Warner Football, the SNC soccer team, LTS, etc., or a favored "collaborator" such as the Lake Tahoe Hyatt Hotel ("the Hyatt"), you're given free or deeply discounted exclusive access and use for team practices/tournaments/conventions/other uses.

Free Diamond Peak Season Passes to "Stellar Students:" Diamond Peak offers free season passes to "students enrolled through grade 12 in Incline Village schools, including the LTS... (and) children of Incline Village and Crystal Bay property owners attending other schools...in exchange for a report card with straight-A's¹⁴." And if you're a parent of one of these children who has purchased a Diamond Peak season pass, IVGID actually refunds the purchase price paid.

Donated Recreational/Other Privileges to the Diamond Peak Ski & Education Foundation: Each year Diamond Peak enters into an agreement with the Diamond Peak Ski & Education Foundation ("the DPSEF") whereby hundreds of thousands of dollars worth of recreational/ other benefits are given to the DPSEF in consideration of essentially *nothing* tangible nor verifiable. Let me recite some examples: discounted group priced Diamond Peak season passes at essentially the preferred "resident" rate, even if a purchaser is not a local property owner paying the Recreation Facility Fee¹⁵ ("the RFF"); exclusive use of Diamond Peak for training before the facility is made available to the

¹⁴ See http://www.diamondpeak.com/uploads/news-events/Release_DP_Stellar_Students_1.20.14.pdf.

¹⁵ This "fee" is really a special tax against property prohibited by NRS 361.445. Although IVGID represents that this "fee" pays for nothing more than the "availability" of the public's recreational facilities to the owner(s) of property (which your firm knows from its examination of Resolution 1821), it is reported and used by IVGID to pay for the difference between budgeted revenues and expenses assigned to its Community Services Fund ("the Community Services deficiency") so IVGID can declare a "balanced" budget in this fund²⁵. Moreover when this "fee" exceeds the Community Services deficiency as your firm confirms it did for 2013-14 ("changes in net position" – \$1,575,048), rather than being returned to those who have paid it, IVGID usurps the excess; re-labels it "repurposed" revenue; and rather than providing any special benefit to those who have paid it, IVGID freely uses the excess for any purposes whatsoever.

public; exclusive use of portions of Diamond Peak after it is open to the public for training and ski races/tournaments; race course set up/tear down/extra slope grooming; exclusive use of two prime Diamond Peak parking spaces the DPSEF regularly auctions off for \$40,000; 50% food and beverage discounts for 25 or more DPSEF coaches/staff; 22 or more free Diamond Peak season passes; free lift tickets to visiting ski team coaches/volunteers; deeply discounted lift tickets to visiting ski team members/their friends and family; 50% revenue sharing insofar as the discounted lift tickets sold by the DPSEF to visiting ski team members/their friends and family; free use of IVGID's Skier Services Building office space, equipment and lockers; etc. According to I and others, the value of this arrangement with the DPSEF is several hundreds of thousands of dollars.

Free Access to "Favored" Local Businesses: if you're a "favored" local business, IVGID routinely gives away free recreational privileges so you can promote your business by generating additional revenues you don't have to share with IVGID. Some examples. Each year IVGID gives away a free Diamond Peak season pass to: the Hacienda Restaurant for its "Pray for Snow Party;" Crosby's for its "Super Bowl Party;" Village Ski Loft ("the VSL") for its "Labor Day Tent Sale;" the Incline Village Nursery School ("the IVNS") for its "Pumpkin Patch" event; and I am certain dozens of other local businesses under the guise "it's promotion stupid" or to "maintain good relations with local non-profits." It also gives: the Hyatt at least five free transferrable Diamond Peak season passes; the VSL at least eight free Diamond Peak season passes; and, Brimm's Catering ("Brimm's") at least eleven free Diamond Peak season passes; all as additional consideration under lease or concession agreements. I and others are certain additional season passes are given away for free to numerous other local businesses and non-profits; we just don't know the extent.

Free Access to Non-Profits: Each year IVGID gives away tens if not hundreds of thousands of dollars worth of free recreational privileges to various non-profits so they can sell them as fundraisers to promote their various social causes of choice. The most egregious example I can provide is the DPSEF. Each year IVGID donates two choice parking spaces at Diamond Peak to the DPSEF which it raffles for \$40,000. The DPSEF gets to keep the \$40,000, and IVGID gets nothing in return. Another example I can provide is the IVNS. Each year IVGID donates a Diamond Peak season pass to the IVNS which it raffles away for money. The IVNS gets to keep the money, and IVGID gets nothing in return. The recipients of these free recreational privileges reads like a "who's who" of Incline Village/Crystal Bay.

Potential Tax Liability for the Failure to Report to the Internal Revenue Service ("the IRS") the "Income" Effect of These Various Discounts/Giveaways: I and others believe that many of these and other similar "arrangements" require reporting to the IRS. The financial penalty for the failure to report these transactions on IRS Form 1099s is a potential liability *nowhere* disclosed in the proposed CAFR. I and others believe this potential liability should be reflected somewhere, whether by note or otherwise.

Free/Discounted Access to the Public: IVGID regularly gives away free or discounted access to and use of the public's recreational facilities to many members of the general public. Notable examples would be: dignitaries such as a public office holder or celebrity; "service industry" (such as airlines, hotels, tour operators or local businesses) employees; "groups" of as little as three¹⁶; and, ordinary members of the public. Let me highlight the latter category so you understand the extent of

¹⁶ See <http://www.yourtahoeplace.com/parks-recreation/rec-center/corporate-membership>.

what I am talking about.

Service Industry Employees: IVGID gives discounted access to and use of Diamond Peak to employees of “the service industry.” In fact if you’re an employee of the Hyatt, you can ski Diamond Peak mid-week for as little as \$10 (whereas the discount offered to local residents paying the RFF is 250% of this tariff, or \$25)!

Groups: If you can assemble a group of as little as 3 people, the Recreation Center offers a minimum 15% discount¹⁶. And if you assemble a group of as little as 15 people, Diamond Peak offers a minimum 20% discount¹⁷. If your employer wants to purchase daily Diamond Peak lift ticket vouchers for its employees, IVGID offers a similar corporate discount¹⁸.

Flex-Pass: formerly known as a **Mini-Pass**. If *anyone* wants to purchase a multiple (2-7) number of *transferrable* Diamond Peak daily lift tickets, IVGID offers a discount¹⁹.

Ski at a Discount if You’re a Season Pass Holder at Another Ski Area: Simply “Bring Your Other (Season) Pass” from another ski area and you’re given a substantial discount to ski Diamond Peak²⁰.

Ski For Free if You’re a Season Pass Holder at Another Favored Ski Area: If you’re a season pass holder at Homewood, Boreal Mountain, June Mountain or Red Lodge Mountain Resorts, you can ski *free* for up to four days at Diamond Peak simply by showing your season pass²¹.

Ski Free on Your Birthday: Diamond Peak advertises a “free lift ticket on your birthday” discount²². On your birthday *anyone* can ski Diamond Peak for free simply by showing evidence of his/her birth date. And if your birthday takes place before Diamond Peak opens/after it closes, a special date is assigned where you too can “ski on your birthday.”

Picture Pass Holder (“PPH”) – Resident Appreciation Days: Several days a year the user fees IVGID charges at its recreational facilities are waived to PPHs. Simply show your resident PPH, and your entry/use is free.

Fire/Police/Military: Diamond Peak advertises free or discounted daily lift tickets to firefighters, police, military and their dependents²².

Locals Lunch: Diamond Peak advertises a discounted mid-week lift ticket good

¹⁷ See <http://www.diamondpeak.com/tickets-specials/group-events-tickets>.

¹⁸ Diamond Peak’s “Corporate Ticket Program” (see <http://www.diamondpeak.com/tickets-specials/group-events-tickets>).

¹⁹ See <http://www.diamondpeak.com/tickets-specials/lift-tickets>.

²⁰ See <http://www.diamondpeak.com/tickets-specials/specials/bring-your-pass>.

²¹ See <http://www.diamondpeak.com/tickets-specials/season-passes-pass-perks>.

²² See <http://www.diamondpeak.com/tickets-specials/specials/other-specials>.

from/to 11 A.M. – 1 P.M. available to *everyone* (“local residency not required”)²³. In *addition*, each purchaser receives a \$10 credit towards his/her lunch.

Everyday Discounted Food and Beverage Purchases to Property Owners: IVGID offers a 10% discount on all food and non-alcoholic beverage purchases, system wide (i.e., at the Grille Restaurant, the Diamond Peak “food court,” the Recreation “snack bar,” etc.), to local PPH residents who pay the Beach Facility Fee²⁴ (“the BFF”) and/or the RFF.

The Potential Liability for the Failure to Report to the IRS the “Income” Effect of These Various Discounts/Giveaways: I and others believe that many of these and other similar “arrangements” require reporting to the IRS. The financial penalty for the failure to report these transactions on IRS Form 1099s represents a potential liability *nowhere* disclosed in the proposed CAFR. I and others believe this potential liability should be reflected somewhere, whether by note or otherwise.

IVGID’s Financial Reporting of the Effect of These Various Redemptions/Discounted/ Complimentary “Sales:” How are these and similar discounts/giveaways accounted for in IVGID’s financials? I and others submit that they’re either not accounted for whatsoever, or alternatively, they are accounted as follows: each time the recipient of one or more of these special discounts/promotions takes advantage of them, IVGID reports the use as a full, retail, cash “sale” even though that cash has not actually been received. Then in order to get the accounting fund to which these special discounts are assigned to balance²⁵, the difference between the retail cash sale declared and the lesser actual cash amount received, assuming any, is treated as an expense under the generic category of “services and supplies.” In the opinion of myself and others, the failure to separately report the financial effect of these special discounts or free use of IVGID’s recreational facilities, either as revenue and/or expense, renders IVGID’s financials inconsistent, unfair, inaccurate, misleading and deceitful. I therefore ask that your firm insist that IVGID separately report the financial effect of these specially discounted/free “sales,” system wide, as a sales allowance to revenue declared much the same as IVGID has reported “Discounts to Property Owners on Entry Fees.”

The Loss of Revenue Due to Discounts on Entry Fees/Complimentary Access Given to IVGID Employees, Their Significant Others and Their Household Family Members: If your firm insists that

²³ <http://www.diamondpeak.com/tickets-specials/specials/locals-lunch>.

²⁴ Similar to the RFF¹⁵, IVGID represents that this “fee” pays for nothing more than the “availability” of the beaches to the owner(s) of property with beach access, it is reported and used by IVGID to pay for the difference between budgeted revenues and expenses in the Beach Fund (“the Beach deficiency”) so IVGID can declare a “balanced” budget in this fund²⁵. Moreover when this “fee” exceeds the Beach deficiency as your firm confirms it did for 2013-14 (“changes in net position” – \$441,705), rather than being returned to those who have paid it, IVGID usurps the excess; re-labels it “repurposed” revenue; and rather than providing any special benefit to those who have paid it, IVGID is now proposing (see agenda item H(2) to the IVGID Board’s regular December 10, 2014 meeting) it be free to use the excess to pay for financial deficiencies system wide.

²⁵ ¶01.1 of Policy No. 6.1.0 declares that “The District shall adopt a practice(s) that...encourage... commitment to a balanced budget under...and provide...for disclosure when a deviation from a balanced operating budget is planned or when it occurs.”

IVGID report as an expense or sales allowance to revenue the effect of discounts given on the recreational venue user fees local property owners pay, why wouldn't it insist that IVGID similarly and consistently apply the same sales allowances given to its employees, their significant others and their household family members? Although IVGID refuses to share its financial records which demonstrate how this free or discounted use is reported, I and others I know believe it is either not reported at all or alternatively, it is reported as follows:

The employee's/his/her significant other's/household family members' use is reported as revenue at the full retail rate as if it were a full, retail, non-discounted, cash sale. Then in order to get the expense side of the accounting summary in the fund to which this revenue is assigned to balance²⁵, IVGID reports an equal amount as an expense reported under the generic category "services and supplies." Either way, the manner in which this access and use is reported, in the opinion of myself and others, renders IVGID's financials unfair, inaccurate, misleading and deceitful. I therefore ask that your firm insist that IVGID separately report the financial effect of these specially discounted/free "sales" as an allowance to revenue much the same as "Discounts to Property Owners on Entry Fees."

The Loss of Revenue Due to Discounts on Sales *Other Than* Entry Fees Given to Employees, Their Significant Others and Their Household Family Members: If your firm insists that IVGID report as an expense or sales allowance to revenue the effect of discounts given on the recreational venue user fees local property owners pay, why wouldn't it insist that IVGID similarly and consistently apply the same sales allowances given to its employees, their significant others and their household family members on the goods and services *other than* entry fees that they pay such as: food and beverage discounts routinely given²⁶ at its restaurants, food court and snack bar; or clothing, equipment and merchandise discounts routinely given at its retail sales facilities (like the golf and tennis pro shops, and the Hyatt Sport Shop); or equipment (like golf clubs and ski/snowboards) rental or sports instruction (like golf and ski/snowboard lessons) discounts routinely given at each of its recreational facilities; or goods and service purchases from outsourced private parties²⁷ (even though I and others believe this practice to be unethical²⁸ and unlawful²⁹)? Although IVGID refuses to share its financial records to demonstrate how all of this free or discounted use and purchases are reported, I and others I know believe it is either not reported at all or alternatively, it is reported similar to the manner in which "Discounts on Entry Fees/Complimentary Access Given to IVGID Employees, Their Significant Others and Their Household Family Members" (see above) are reported.

In the opinion of myself and others, the failure to separately report the financial effect of these exempted and discounted sales to the extent included in the sales and services revenues IVGID

²⁶ Without demanding reimbursement of the discount.

²⁷ IVGID has outsourced some of its enterprise functions to various third party private businesses (i.e., concessionaires). One example is Brimm's which operates Diamond Peak's Snowflake Lodge and the beaches' food and non-alcoholic beverage concessions. IVGID's concession agreements provide that its concessionaires pay rent based upon a percentage of gross sales. Yet when a discounted sale is made to an IVGID Trustee or employee, the sale is exempted from the calculation of rent based upon gross sales. Stated differently, the public realizes a loss of rental income because of these exempted sales.

²⁸ See NRS 281A.400(7).

²⁹ See NRS 193.170, 197.220, 281.360.

declares, renders IVGID's financials unfair, inaccurate, misleading and deceitful. I therefore ask that your firm insist that IVGID separately report the financial effect of these specially discounted/free "sales" as an allowance to revenue much the same as "Discounts to Property Owners on Entry Fees."

The Potential Liability for IVGID's Failure to Report the "Income" Effect of These Various Discounts/Giveaways to the IRS: I and others believe that many of these and other similar "arrangements" extended to IVGID employees and their families require reporting to the IRS as taxable fringe benefits. The financial penalty for the failure to report these transactions and to withhold the applicable portion on IRS Form W2s represents a potential liability *nowhere* disclosed in the proposed CAFR. I and others I know believe that the failure to report this potential liability should be reflected somewhere, whether by note or otherwise.

The Potential Liability for IVGID's Failure to Pay Employee Taxes Due on the "Income" Effect of These Various Discounts/Giveaways to the IRS it Doesn't Report: I and others believe that many of these and other similar "arrangements" extended to IVGID employees and their families not only require reporting to the IRS as taxable fringe benefits, but also payment of employee taxes due thereon. The financial penalty for the failure to report these transactions and to pay the employer's share of employee taxes due represents a potential liability *nowhere* disclosed in the proposed CAFR. I and others I know believe that the failure to report this potential liability should be reflected somewhere, whether by note or otherwise.

The Revenue Reported From the Redemption of IVGID's Convertible Virtual Currency: As your firm knows IVGID prints its own currency for use *in lieu* of United States currency. It then reports the redemption of this currency much the same as if it were United States currency. Without separately reporting real cash revenues from IVGID's "funny money" (convertible virtual revenue³⁰), in the opinion of myself and others, renders the revenues and expenses IVGID reports, unfair, inaccurate, misleading and deceitful. Again I offer several examples:

IVGID "Bucks:" Without Board oversight whatsoever³¹, IVGID staff prints its own convertible virtual currency and calls it "IVGID Bucks." Although this currency is backed by the full faith and credit of local property owners who involuntarily pay the BFF and/or the RFF, the only limitation on the extent of IVGID Bucks that can be printed is the amount of paper and ink IVGID can purchase or barter for. These "bucks" are given away for free to various persons for various purposes, and they can be used by the recipient *in lieu* of cash currency for goods or services sold at any of IVGID's recreational facilities.

Diamond Peak "Bucks:" are similar to IVGID Bucks³¹ (see above) with the exception they can only be used *in lieu* of cash currency at Diamond Peak. I am aware of the fact that at the VSL's 2013 Labor Day Tent Sale, IVGID staff was giving away at least \$100 worth of IVGID Bucks to anyone who purchased a 2013-14 Diamond Peak season pass. And I am aware of the fact that Diamond Peak Bucks were regularly sold to members of the public at a discount (purchase \$100 of "Bucks" for \$80).

³⁰ Convertible virtual currency is defined as something which has an equivalent value in real currency, or acts as a substitute for real currency.

³¹ In other words, a lack of internal controls.

“PERKS” Certificates: Similar to IVGID and Diamond Peak “Bucks” and again without any Board oversight³¹, IVGID prints these are certificates which are given away for free to IVGID employees and/or their families. The recipients of these certificates can use them *in lieu* of cash currency at any of IVGID’s recreational facilities.

The Potential Liability to the Extent IVGID Fails to Report to the IRS the “Income” Effect of These “Bucks” or “Certificates” Given to its Employees: I and others believe that many of these and other similar “arrangements” extended to IVGID employees and their families require reporting to the IRS as taxable fringe benefits. The financial penalty for the failure to report these transactions and to withhold the applicable portion on IRS Form W2s represents a potential liability *nowhere* disclosed in the proposed CAFR. I and others I know believe that the failure to report this potential liability should be reflected somewhere, whether by note or otherwise.

The Potential Liability to the Extent IVGID Fails to Pay Employee Taxes to the IRS Due on the “Income” Effect of These “Bucks” or “Certificates” Given to its Employees: I and others believe that many of these and other similar “arrangements” extended to IVGID employees and their families not only require reporting to the IRS as taxable fringe benefits, but also the payment of employee taxes due thereon. The financial penalty for the failure to report these transactions and pay the employer’s share of employee taxes due is a potential liability *nowhere* disclosed in the proposed CAFR. I and others I know believe that the failure to report this potential liability should be reflected somewhere, whether by note or otherwise.

Pro Shop Script: In addition to “Bucks” and again without any Board oversight³¹, IVGID staff prints “script” it gives away for free or at a discount to various “favored” groups who frequent IVGID’s golf courses. Like IVGID “Bucks,” this script is redeemable *in lieu* of cash currency at IVGID’s golf course pro shops. The script comes in various denominations and it is either given away for free by local golf clubs to their members, or raffled away for fund raising purposes.

Costco Gift Cards: Similar to IVGID and Diamond Peak “Bucks,” script and PERKS “certificates,” and again without any Board oversight³¹, IVGID staff has designed, printed and distributed Diamond Peak gift cards for sale to the public at various Costco stores. Each gift card is loaded with \$50 of value redeemable on user fees, goods, food and beverage, and other miscellaneous services offered at Diamond Peak. The gift cards are sold in pairs for \$79.95. Yet the net amount IVGID realizes from Costco for each pair of gift cards sold is only a bit over \$70.

Diamond Peak Lift Ticket Vouchers: Again without any Board oversight³¹, IVGID staff prints thousands of Diamond Peak lift ticket vouchers it gives away for free for various purposes. The vouchers can be redeemable for free, discounted or “2-for-1” daily lift tickets at Diamond Peak. In fact, as your firm knows, each year \$60,000 of these vouchers are given away for free to EXL Media (a media sales vendor) for advertising “trade” or “promotional” purposes. The recipients of these vouchers present them at Diamond Peak and realize free, discounted or 2 daily lift tickets for the price of 1.

Recreation Center 50% Discounted Daily Membership Certificates: Similar to Diamond Peak daily lift ticket vouchers and again without any Board oversight³¹, the Recreation Center regularly publishes in newspapers, magazines and on the face of Diamond Peak lift tickets themselves, 50% discounted daily membership certificates redeemable at the Recreation Center. The recipient simply presents the certificate and realizes a 50% discount on the cost of a daily Recreation Center membership.

10% Food and Beverage Discount Certificates: Similar to the 10% discount on food and non-alcoholic beverage sales at IVGID facilities offered to residents who pay the RFF (see “Everyday Discounted Food and Beverage Purchases to Property Owners” above), and again without Board oversight³¹, IVGID staff prints and routinely distributes certificates which offer the same discount to non-residents. The recipient redeems the certificate and realizes a 10% discount on his/her total food and beverage purchase at any IVGID operated restaurant/food court/snack bar.

IVGID’s Financial Reporting of the Redemption of These Discounted/Free “Bucks”/Script/Gift Cards/Certificates/Vouchers: Although IVGID refuses to share its financial records to demonstrate how all of these free or discounted redemptions are reported, I and others I know believe they are either not reported at all or alternatively, reported similar to the manner in which “Discounts on Entry Fees/Complimentary Access Given to IVGID Employees, Their Significant Others and Their Household Family Members” (see above) are reported. In the opinion of myself and others, the failure to separately report the financial effect of these redemptions to the extent included in the sales and services revenues IVGID declares, renders IVGID’s financials unfair, inaccurate, misleading and deceitful. I therefore ask that your firm insist that IVGID separately report the financial effect of these free or discounted redemptions as an allowance to revenue much the same as “Discounts to Property Owners on Entry Fees.”

Third Party Discounted Diamond Peak Lift Ticket Sales: IVGID has entered into agreements with various third parties who are allowed to sell access to and use of the former’s recreational facilities at a discount. Ultimate purchasers gain access to and use of IVGID’s recreational facilities at a discount, and these third party sellers are compensated, in part, with free recreational facility certificates or vouchers they can sell to their customers. Examples of some of these third party resellers I am aware of are Liftopia, Snowbomb, Sliding on the Cheap (all involving Diamond Peak lift ticket sales), and GolfNow (involving Championship and Mountain Golf Course round of golf sales). Although IVGID refuses to share its financial records to demonstrate how the free or discounted redemption of these certificates or vouchers are reported, I and others I know believe they are either not reported at all or alternatively, they are reported similar to the manner in which “Discounts on Entry Fees/Complimentary Access Given to IVGID Employees, Their Significant Others and Their Household Family Members” (see above) are reported. In the opinion of myself and others, the failure to separately report the financial effect of these certificate or voucher redemptions to the extent included in the sales and services revenues IVGID declares, renders IVGID’s financials unfair, inaccurate, misleading and deceitful. I therefore ask that your firm insist that IVGID separately report the financial effect of these redemptions as an allowance to revenue much the same as “Discounts to Property Owners on Entry Fees.”

“Barter” in Lieu of Cash Currency Sales: IVGID uses the currency it is able to print, *in lieu of* cash currency, to purchase goods or services. One example I am aware of is print advertising. IVGID purchases a \$5,000 advertisement in a magazine, and then pays in whole or in part with a like amount of Diamond Peak lift ticket vouchers. Another example I am aware of is event advertising. IVGID becomes a sponsor of an event such as a Warren Miller film showing and pays with some number of free Diamond Peak lift ticket vouchers. Or IVGID attends an event such as the Snowbomb ski show in the Bay Area or a Six Flags Animal Kingdom event in Vallejo, and pays for its participation with some number of free Diamond Peak lift ticket vouchers. Although IVGID refuses to share its financial records to demonstrate how the redemption of these vouchers are reported, I and others I know believe they are either not reported at all or alternatively, they are reported similar to the manner in which “Discounts on Entry Fees/Complimentary Access Given to IVGID Employees, Their Significant Others and

Their Household Family Members” (see above) are reported. In the opinion of myself and others, the failure to separately report the financial effect of these voucher redemptions to the extent included in the sales and services revenues IVGID declares, renders IVGID’s financials unfair, inaccurate, misleading and deceitful. I therefore ask that your firm insist that IVGID separately report the financial effect of these redemptions as an allowance to revenue much the same as “Discounts to Property Owners on Entry Fees.”

Potential Tax Liability for the Failure to Report to the IRS the “Income” Effect of These Bartered Transactions: I and others believe that many of these and other similar “arrangements” require reporting to the IRS. The financial penalty for the failure to report these transactions on IRS Form 1099s is a potential liability *nowhere* disclosed in the proposed CAFR. I and others believe this potential liability should be reflected somewhere, whether by note or otherwise.

Cash Donations IVGID Reports as Legitimate Recreational Facility Enterprise Fund/Sub-Fund Expenses: IVGID donates public moneys to “favored” third parties and then I suspect, disingenuously calls them something other than what they really are (i.e., some legitimate recreational venue related “expense”). Let me provide some examples. Each year IVGID gives the local chapter of the Kiwanis Club \$3,500 in public moneys to subsidize the latter’s 4th of July beach picnic/BBQ. Two years ago former IVGID Trustee Gene Brockman’s Vision 2020 non-profit was given \$4,000 to underwrite some of the costs associated with its formation. Several years before that another non-profit, the Incline-Tahoe Parks and Recreation Vision Foundation, was given \$1,500 for the same purpose. Some years ago IVGID’s Chief Financial Officer donated public funds to one of her personal charities (“Relay for Life”). Apparently IVGID has a secret “Community Services” sub-fund within the General Fund which is budgeted to fund some or all of these donations. And when expenses such as these are charged to the General Fund, a deficit is created which ends up being covered by a transfer of the RFF and/or the BFF disingenuously labeled a “central services cost” (see discussion below).

How, if at all, are these cash donations reported in IVGID’s financials? Whatever the answer, in the opinion of myself and others, the failure to separately report the financial effect of these donations as an expense, renders IVGID’s financials unfair, inaccurate, misleading and deceitful. I therefore ask that your firm separately report the financial effect of these donations as an allowance to revenue much the same as it has for “Discounts to Property Owners on Entry Fees.”

Public Philanthropy IVGID Has No Power to Exercise: I understand that your firm’s opinion excludes one on compliance with laws and regulations. However it is the view of myself and others that your firm cannot simply stick its head in the sand and ignore what’s going on around it (or in this case IVGID). Knowing what your firm knows about political subdivisions, it knows that IVGID is *not* a general government. Thus it knows that IVGID’s basic powers are strictly *limited* to those recognized by the Legislature, and explicitly granted by the Washoe County Board of Commissioners. Given NRS 318.116 clearly discloses that *nowhere* are general improvement districts (“GIDs”) given the power to donate or give away public assets such as cash or access to and use of the public’s recreational facilities³² (i.e., philanthropy), your firm’s tacit approval of this practice and its failure to reflect its

³² As your firm knows, Nevada is a “Dillon’s Rule” State. As such, “a municipal corporation possesses and can exercise (only) the following powers *and no others*: (1) Those granted in express words; (2) Those necessarily or fairly implied in or incident to th(ose) powers expressly granted; (3) Those essential to the accomplishment of the declared objects and purposes of the corporation – (and) *not* (those)

disapproval somewhere, whether by note or otherwise, in the opinion of myself and others renders IVGID's financials unfair, inaccurate, misleading and deceitful. Moreover, given there are essentially no limits on the extent of public philanthropy IVGID staff is permitted to exercise without Board oversight, in the opinion of myself and others, represents a lack of internal controls.

The Failure to Report All Significant Lease Obligations: Note 14 to the proposed CAFR discusses significant lease obligations, both present and projected. However it fails to discuss IVGID's greatest outstanding lease obligation; that in favor of the Hyatt for IVGID's operation of the Hyatt Sport Shop. Given IVGID paid the Hyatt more than \$38,176 during the year ended June 30, 2014, in the opinion of myself and others this failure to report represents a material deficiency which renders IVGID's financials unfair, inaccurate, misleading and deceitful.

The Failure to Report Potential Liability for Conspiring With a Private Social Group to Evade State Sales and/or Use Taxes: Given your firm has represented that it has reviewed the minutes of all IVGID Board meetings during the subject fiscal year, it knows that the Board allowed IVGID to be used by Incliners, a private social group³³, as a middle man, to evade State sales and/or use taxes. Basically Incliners sought out and negotiated a catering contract with Crosby's Restaurant; when Crosby's stated it would have to charge Incliners State sales tax, Incliners petitioned the IVGID Board to contract with Crosby's on Incliner's behalf; with an arrangement Incliners would reimburse IVGID for the direct costs it incurred with Crosby's on Incliner's behalf. And because IVGID as a political subdivision is exempted from paying State sales tax, this arrangement allowed Incliner's to evade paying State sales/use tax.

I and others are of the opinion that IVGID has conspired with Incliners to evade the latter's payment of State sales and/or use tax and as such, has a potential liability to the Department of Taxation. As such, I and others believe this potential liability should be reflected somewhere, whether by note or otherwise.

The Failure to Insist That IVGID Appropriate Expenses: Given your firm has represented that it has reviewed the minutes of all IVGID Board meetings during the subject fiscal year, it knows that time and time again staff makes unbudgeted expenditures *without* receiving Board approval (an example in 2013-14 was the purchase of four electric vehicle charging stations. Another was the initial consulting agreement with *AugustineIdeas* to "brand" Incline Village. And yet another was a similar consulting agreement with *Conductiv* for a point-of-sales software system). These unbudgeted expenditures were allowed to take place for at least two reasons your firm should be aware of. First, at staff's request the Board has given the General Manager the unbridled discretion to enter into any contract, contract

simply convenient, (but) rather indispensable. Any fair doubt concerning the existence of a power is (to be) resolved by the courts *against the... (local government)*, and the power is (to be) *denied*" (see page 3 at <http://www.leg.state.nv.us/Interim/75th2009/Exhibits/LocalGov/E021810C-1.pdf>).

³³ Although IVGID will assert Incliners is really an IVGID social group, it is not. Unlike other IVGID social groups, Incliners charges its members a year membership fee. That fee is deposited into a non-IVGID checking account maintained at Wells Fargo Bank. And its use is determined by an independent Incliners Board of Directors. Incliners has an independent Board of Directors which makes its own decisions. It maintains a telephone number and mailing address which differ from IVGID. Moreover Incliners makes money on the sale of Crosby's catering (it charges its actual allocated cost of meals to members, and a higher cost to non-members); money which is not turned over to IVGID.

modification or to make any expenditure of up to \$50,000 without first securing prior Board approval³⁴. Second, according to staff³⁵, its expenditures do not need to be nor are they appropriated³⁶. Again I understand that your firm's opinion excludes one on compliance with laws and regulations. However it is the view of myself and others that your firm cannot simply stick its head in the sand and ignore what's going on around it (or in this case IVGID). Thus your firm knows that NRS 354.626(1) makes the "expend(iture) or contract(ing) to expend *any* money or incur *any* liability, or enter into *any* contract which by its terms involves the expenditure of money, *in excess of the amounts appropriated for that function*" unlawful. Your firm's tacit approval of this practice and its failure to reflect its disapproval somewhere, whether by note or otherwise, in the opinion of myself and others, renders IVGID's financials unfair, inaccurate, misleading and deceitful. Moreover, given there are essentially no limits on the extent of non-appropriated expenditures IVGID staff is permitted to exercise without Board oversight, in the opinion of myself and others, represents a lack of internal controls.

"Interfund Transfers" Disingenuously Labeled "Central Services Costs:" Your firm has included this expense entry on three schedules; "Revenues, Expenses and Changes in Net Assets" for IVGID's Utility, Community Services and Beach Enterprise Funds. Page 167 of IVGID's 2013-14's operating budget states that these amounts allegedly represent these funds' fair share of Accounting and Human Resource expenses assigned to the General Fund. Stripped of rhetoric, your firm understands that these expenses represent nothing more than "interfund transfers" of funds from three of IVGID's enterprise funds to its General Fund to cover financial deficits in the latter. In other words, the very same kinds of transfers IVGID was financially living off of prior to adoption of NRS 354.613 effective July 1, 2011 and your firm's engagement as IVGID's auditor.

As your firm knows, the relevant NRS section that addresses the subject transfers is NRS 354.613(1) which states that "the governing body of a local government may...*only*...transfer money from an enterprise fund, money collected from fees imposed for the purpose for which an enterprise fund was created (i.e., the RFF/BFF) or any income or interest earned on money in an enterprise fund ...if the...transfer is made...(c) for a cost allocation for employees, equipment or other resources related to the purpose of the enterprise fund which is approved by the governing body under a nonconsent item that is separately listed on the agenda for a regular meeting of the governing body." Since your firm has reviewed the minutes of all IVGID Board meetings during the subject fiscal year, it knows that *there has never been such Board approval*.

Moreover, NRS 354.613(8) goes on to state that "for the purposes of paragraph (c) of subsection 1, the Committee on Local Government Finance ("the CLGF") shall adopt regulations setting forth the extent to which general, overhead, administrative and similar expenses of a local government of a type described in paragraph (c) of subsection 1 may be (permissibly) allocated to an enterprise fund³⁷ ("the regulations"). The regulations *require* that: (a) Each cost allocation makes an equitable

³⁴ See ¶1.06(f) of Policy No. 3.1.0.

³⁵ See page 15 of IVGID's 2013-14's operating budget (http://www.yourtahoeplace.com/uploads/pdf-ivgid/2013_2014_adopted_budget_book.pdf).

³⁶ NRS 354.482 defines an "appropriation (as)...an authorization *by a governing body* to make expenditures and to incur obligations for specified purposes."

³⁷ Your firm can review these regulations at <https://www.leg.state.nv.us/Register/2012Register/R007-12A.pdf>.

distribution of all general, overhead, administrative and similar expenses of the local government among all activities of the local government, including the activities funded by the enterprise fund; and (b) Only the enterprise fund's equitable share of those expenses may be treated as expenses of the enterprise fund and allocated to it pursuant to paragraph (c) of subsection 1."

Again I understand that your firm's opinion excludes one on compliance with laws and regulations. However knowing what your firm knows, *nowhere* has it confirmed that staff's allocations, in light of the regulations, in fact represent: "an equitable distribution of all general, overhead, administrative and similar expenses of the local government among all activities of the local government, including the activities funded by the enterprise fund;" and, "only the enterprise fund's equitable share of...expenses...treated as expenses of the enterprise fund...allocated to it pursuant to paragraph (c) of subsection 1;" as the CLGF regulations mandate. Thus in the opinion of myself and others, your firm cannot simply stick its head in the sand and ignore what's going on around it (or in this case IVGID). Knowing what your firm knows, nowhere has it reported to the public these improper transfers. Thus this makes the your firm's tacit approval of IVGID's improper interfund transfers without verifying the reasonableness of central services cost allocations as part of the auditing process, unfair, inaccurate, misleading and deceptive. Moreover, the failure to report the propriety of these transfers represents a material deficiency in adequate internal controls (lack of control for compliance with CLGF regulations which are more specific) and I and others believe your firm should formally notify the IVGID Board of such deficiencies.

Undisclosed Facility Fee Revenues: At public meetings I have attended and your firm should be aware of because your firm has represented that it has reviewed the minutes of all IVGID Board meetings during the subject fiscal year, IVGID staff has admitted it collects *voluntary* RFFs/BFFs in *addition* to the involuntary ones it budgets for. This unbudgeted revenue is collected for sales of PPHs and "punch cards." For 2013-14 IVGID's Director of Parks and Recreation has admitted the sale of over \$90,000 worth of additional PPHs/punch cards. Yet if your firm examines the Schedule of Revenues, Expenses and Changes in Net Assets for IVGID's Community Services Fund, it will see that IVGID has reported budgeted RFF revenue of \$5,967,750, and actual RFF revenue of \$6,024,564; a difference of nearly \$57,000. And if your firm examines the Schedule of Revenues, Expenses and Changes in Net Assets for IVGID's Beach Enterprise Fund, it will see that IVGID has reported budgeted BFF revenue of \$773,800, and actual BFF revenue of \$780,716; a difference of roughly \$7,000. Not only does this combined difference *not* total the approximate \$90,000 worth of additional PPHs/punch cards admitted, but I don't believe *any* of this difference is attributable to staff's sales of additional PPHs/punch cards. According to IVGID's Director of Finance, this additional revenue came from the retroactive collection at the time of sale of four parcels which for close to ten years did *not* pay the RFF/BFF³⁸.

Where is the additional \$90,000 plus of *additional* PPHs/punch card sale revenue reported? And equally as important, where is it budgeted? And what is this additional revenue spent on? In my opinion the failure to report these voluntary PPH/punch card sales makes IVGID's reporting of RFF/BFF revenues unfair, inaccurate, misleading and deceptive. Moreover, if IVGID neither budgets for nor reports additional RFF/BFF revenue as a result of these sales, in essence there are essentially no limits on the extent of these sales IVGID staff is permitted to make without Board oversight which in the opinion of myself and others, represents a lack of internal controls.

³⁸ IVGID has adopted a policy that when parcels are exempted from paying the RFF/BFF, upon their subsequent sale, all retroactive RFFs/BFFs must be recaptured and paid with interest.

The Failure to Report Cash Flows: When one looks at the reporting of IVGID's revenues and expenses, one presumes those entries represent *actual cash* revenues received and expenses paid for. However for many of the reasons stated above, I and others believe that a good portion represent combined cash and non-cash entries. In order to present a fair representation of the two, I and others know feel that cash and non-cash revenues and expenses must be *separately* identified and reported. In fact I have been informed that insofar as "barter" in particular is concerned, this is exactly what GAAP mandates. For these reasons then I ask that your firm insist that IVGID separately report cash and non-cash revenues and expenses. Otherwise, this deficiency renders IVGID's financial reporting unfair, inaccurate, misleading and deceptive.

The Failure to Report Reserves: Another problem with IVGID's financial reporting is that *nowhere* does it identify "reserves," nor the funds to which reserves have been assigned, nor changes to those various reserve funds during the subject fiscal year. Staff reports that positive funds remaining in IVGID's various accounting funds are automatically "swept up" at the end of the fiscal year and applied to "reserves."³⁹ It reports that each accounting fund/sub-fund has its own separate reserve fund which is somehow linked to its underlying accounting fund. But nowhere is there a straightforward reporting of all such reserve funds, nor the amounts in each of those funds at both the beginning and end of the fiscal year. Although note 2 to the financials sets forth IVGID's cash and cash equivalent position, it doesn't identify which deposits represent reserves and which do not. Nor does it identify to what accounting fund/sub fund each position is assigned. In order for there to be a clear reporting to the public of IVGID's various reserve funds and from where those sums on deposit have come from, in the opinion of myself and others they need to be clearly and separately stated the exact same way the proposed CAFR reports "Long Term Debt Activity" and "Further Debt Service Requirements" at note 7 "to (the) financial statements." For these reasons I ask that your firm insist that IVGID separately report all reserves, the accounting funds to which they are linked, and changes to each from the beginning to the end of the fiscal year. Otherwise, this deficiency renders IVGID's financial reporting unfair, inaccurate, misleading and deceptive.

IVGID's Failure to Adopt Resolutions Establishing its Various Enterprise Accounting Funds: As your firm knows, IVGID maintains a number of accounting funds/sub-funds. Yet none has been established by Board resolution but for IVGID's Beach Enterprise Fund. The failure to establish these

³⁹ The public needs to clearly see that IVGID is charging local property owners *greater* RFFs/BFFs than those actually required to make the public's recreational facilities "available for their use, and where the excess is going. As your firm has reported, IVGID's Beach Enterprise Fund generated \$579,198 of positive cash flow (\$137,493 of depreciation and \$441,705 of "changes in net position") before spending \$127,176 on capital assets (according to IVGID's budget, \$425,260 of these expenditures came from capital reserves) and \$263,218 on debt service. Local dwelling unit owners paying the BFF want to know where the extra money (\$614,064 or nearly \$79 for every dwelling unit owner paying the BFF) went, and why wasn't it refunded to those who were involuntarily assessed the BFF? Similarly, your firm has reported that IVGID's Community Services Fund generated \$3,868,834 of positive cash flow (\$2,293,786 of depreciation and \$1,575,048 of "changes in net position") before spending \$2,266,640 on capital assets (according to IVGID's budget, \$111,000 of these expenditures came from capital reserves) and \$1,460,782 on debt service. Local dwelling unit owners paying the RFF want to know where the extra money (\$252,412 or nearly \$31 for every dwelling unit owner paying the RFF) went, and why wasn't it refunded to those who were involuntarily assessed the RFF? The proposed CAFR does not clearly answer these questions, and in my opinion it should.

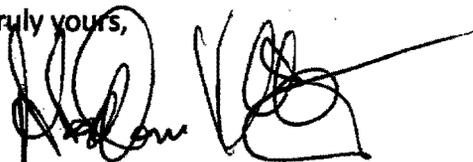
accounting funds means that the Board has never declared "in detail: (a) the object or purpose of (our several) fund(s); (b) the resources...used to establish (each)...fund; (c) the source or sources from which (each)...fund (is)...replenished; (d) the method for controlling expenses and establishing revenues (in each)...fund; and (e) the method by which a determination (can)...be made as to whether the balance, reserve or retained earnings of the fund are reasonable and necessary to carry out the purpose of the fund³¹." Notwithstanding the fact NRS 354.612(1) mandates the adoption of such resolutions, IVGID asserts they need not be adopted because it was created prior to the adoption of NRS 354.612 (i.e., it asserts it is "grandfathered"). I and others believe that just like IVGID must comply with NRS 354.613 even though its passage postdated IVGID's creation, it must comply with NRS 354.612.

Again I understand that your firm's opinion excludes one on compliance with laws and regulations. However it is the view of myself and others that your firm cannot simply stick its head in the sand and ignore what's going on around it (or in this case IVGID). Knowing what your firm knows, how can it accept the statement from any representative of IVGID which "indicat(es) whether each of (its)...enterprise fund(s)...is being used *expressly for the purposes for which it was created*" as NRS 354.624(5)(a)(1) requires? And more importantly, how can your firm blindly accept such a representation knowing there are essentially no resolutions establishing IVGID's accounting funds? For these reasons I ask that your firm insist that IVGID pass resolutions creating each of its enterprise accounting funds. Otherwise this deficiency renders IVGID's financial reporting unfair, inaccurate, misleading and deceptive because there is no independent assurance that every expenditure assigned to a particular accounting fund represents one for which the fund was created.

Conclusion: For all of the above-reasons, in the opinion of myself and others the proposed CAFR proffers an "*unfair...present(ation) in all material respects (of IVGID's)...financial position and the results of (its) financial operations and cash flows...in accordance with generally accepted accounting principles in the United States¹³*." Moreover, if IVGID does not maintain internal controls over many of staff's financial decisions as I have pointed to, how can your firm give a "clean opinion?" I therefore ask that before December 10, 2014 your firm make the modifications suggested. And If your firm requires additional time to make these modifications I ask it request an extension of time from the IVGID Board.

Thank you for your courtesies, cooperation and hopeful positive reply.

Truly yours,



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ALK/a

cc: IVGID Board