

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

Tahoe City, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2020 and 2019

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Lake Tahoe Resort Association, Inc.

We have audited the accompanying financial statements of North Lake Tahoe Resort Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Lake Tahoe Resort Association, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
October 21, 2020

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

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1. Form of Organization

North Lake Tahoe Resort Association, Inc. (the “Association”) was incorporated in the State of California in 1996, upon consolidation of the Tahoe North Visitors and Convention Bureau and the North Lake Tahoe Chamber of Commerce. The Association is organized under Section 501(c)(4) of the Internal Revenue Code as a non-profit public benefit corporation.

The primary function of the Association is to promote tourism and benefit business through efforts that enhance the economic, environmental, recreation and cultural climate of the North Lake Tahoe, California area. The Association provides the following services to its members and the North Lake Tahoe community: Chamber of Commerce, Visitors and Convention Bureau, marketing, conference sales and membership services. The Association also serves as a partner with Placer County in the development and funding plan for infrastructure and transportation projects designed to enhance tourism and community quality of life for the benefit of all in the North Lake Tahoe region.

The majority of the Association’s revenue is derived from contract revenue with Placer County to administer and invest portions of transient occupancy taxes collected in the North Lake Tahoe area. Additional sources of revenue are derived from membership dues, commissions and booking fees earned from conference sales, special events, and from the sale of inventory items at its visitor centers.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The financial statements of the Association have been prepared on the accrual basis of accounting. Additionally, information regarding its financial position and activities are classified according to two classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

Net Assets Without Donor Restrictions are resources currently available for various programs and administration of the Association, board designated funds, or invested in property and equipment.

Net Assets With Donor Restrictions consist of donor restricted contributions. Amounts restricted by the donor for a particular purpose or time period are reported as revenue with donor restrictions when received and such unexpended amounts are reported as net assets with donor restrictions at year end.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as “net assets released from restrictions.”

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Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Liquidity Information

In order to provide information about liquidity, assets have been sequenced according to their nearness to conversion to cash and liabilities have been sequenced according to the nearness of their maturity and resulting use of cash.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is created when an account's collectability is uncertain. The Association estimates doubtful accounts based on factors related to the specific payer's ability to pay and current economic trends.

Accounts Receivable

Accounts receivable consists of amounts due from members for membership dues, cooperative advertising costs, and commissions from group conference sales, as well as other miscellaneous receivables for services provided. The Association does not charge interest on delinquent receivables. Accounts are written off directly to bad debt expense when all attempts at collection are exhausted.

Inventories

Inventories are primarily for the sale of retail goods at the visitor centers and are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property, Buildings and Equipment

In general, property and equipment are capitalized on the Association's books and stated at cost when the asset has over a year of life and costs of over \$2,000. Depreciation is computed on the straight-line basis over the useful lives of the assets, which range from 3 to 7 years.

Marketing Cooperative Agreement

During the year ended June 30, 2007, the Association established the North Lake Tahoe Marketing Cooperative (NLTMC) with Lake Tahoe Incline Village Crystal Bay Visitors and Convention Bureau (IVCBVCB) to cooperatively promote tourism based on shared objectives which are more effectively and efficiently accomplished collectively rather than independently. Under the terms of the agreement, the Association and the IVCBVCB are required to make annual contributions to fund marketing efforts based upon an approved pre-set formula. The Association contributed \$1,503,362 and \$1,459,827 for the years ended June 30, 2020 and 2019, respectively in connection with this marketing effort, which is included in marketing (tourism promotion) and group sales and conference expense in the statement of activities and changes in net assets. The Marketing Cooperative activities

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and balances are reported separately from those of the Association. At June 30, 2020 and 2019, NLTMC owed the Association \$-0- and \$15,703, respectively

Net Assets Without Donor Restrictions

All net asset balances are classified as net assets without donor restriction, excluding the cash flow reserve with donor restrictions at Note 6. Net assets are not subject to imposed restriction or restrictions that have expired. As reflected in the accompanying notes, the Association has designated a portion of net assets without donor restrictions for specific purposes.

Advertising Costs

Advertising costs are expensed as incurred.

Income Tax Status

The Association is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c) (4), and section 23701(f) for California purposes. Unrelated business income, if any, is taxed at regular corporate tax rates.

The Association's three previous federal tax returns and four previous state tax returns are available for examination by the taxing authorities.

Functional Allocation of Expenses

The Association's expenses are recorded into the functional expense categories of program and general and administrative based on a combination of direct identification and, when significant, allocation.

To the extent possible, expenses are recorded in the functional category that receives the most benefit. Expenses requiring allocation are allocated based on a reasonable basis that is consistently applied. Wages and benefits are allocated on the basis of estimates for time and effort. Occupancy expenses are allocated based on the number of full -time employees allocated to each department. Insignificant indirect expenses, such as, office supplies and telephone are recorded as general and administrative.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all cash without donor restriction, money market funds, and debt securities with an original maturity less than three months to be cash equivalents.

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Fair Value

The carrying value of financial instruments, including cash, accounts receivable and accounts payable approximates their fair value due to the short-term maturities of these instruments.

Revenue from Contracts with Customers

For 2020, the Association has adopted the provisions of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, (“Topic 606” in the Accounting Standards Codification (ASC)). Topic 606 superseded the revenue recognition requirements in FASB ASC 980-605, Revenue Recognition. Under Topic 606, the Association must identify a contract with a customer, among other things, and recognize revenue as the Association satisfies a performance obligation.

The following provides information about the Association’s composition of revenue recognized from contracts with customers, the performance obligations under those contracts, and the significant judgements made in accounting for those contracts:

The Association’s contract with Placer County is considered to be an exchange transaction, therefore, revenues received from this contract are reported as unrestricted support. Placer County contract revenue is derived from a combination of advanced payments and reimbursements of approved expenses under the contract, which is renewed annually. Revenue for advanced payments is recognized over time as performance obligations are met when services are performed and at a point in time when expenditures are incurred and submitted to the County for approval.

Member dues revenue is recognized as performance obligations are satisfied by transferring underlying services, such as access to member services, to the customer. The Association records deferred revenue upon receipt of annual membership dues and recognizes the revenue evenly over the year of membership.

Retail sales revenue is derived from merchandise sales. Revenue is recognized at a point in time when performance obligations are satisfied by transferring control of the underlying goods to the customer.

Special event revenue is derived from tickets sales or sponsorships purchased by customers. Revenue is recognized as performance obligations are satisfied, on the day of the event.

Commission revenue is derived from hotels that receive customers as a result of a referral by the Association. Revenue is recognized as performance obligations are satisfied, as control of underlying goods are transferred to the customer.

Contract Balances

Contract liabilities are recorded primarily as deferred revenues when payments are received or due in advance of the Association’s performance, including amounts which may be refundable. The deferred revenue balance is primarily related to cash payments

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recorded in advance of satisfying the Association's performance obligations related to advance purchase products consisting primarily of membership dues. Deferred revenue balances related to contracts was \$28,890 and \$57,969 as of June 30, 2020 and 2019, respectively. For the year ended June 30, 2020, the Association recognized approximately \$58,000 of contract revenue that was included in the deferred revenue balance as of June 30, 2019.

COVID-19

The COVID-19 outbreak in the United States has caused varying degrees of disruption across substantially all businesses. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. It is at least possible that NLTRA may experience adverse effects from the outbreak. The related financial impact to NLTRA is unknown at this time, and therefore no provisions have been reflected in the accompanying financial statements.

3. Board Designated Marketing Reserve

The Association created a marketing reserve, pursuant to the 2003-04 contract with Placer County, to be used for expenditures in key areas due to any unforeseen adverse fluctuations in collections of transient occupancy taxes. The details in the use of the reserves can be decided solely at the discretion of the Association's board of directors subject to compliance with an existing policy of maintaining the reserve level at 10% of a three-year average of budgeted annual marketing, conference and visitor information center expenditures.

	2020	2019
Beginning of year	\$ 358,220	\$ 325,773
Contributions	16,388	32,447
End of year	<u>\$ 374,608</u>	<u>\$ 358,220</u>

4. Concentration of Credit Risk

The Association maintains its cash accounts at a local bank. At June 30, 2020 and 2019, the aggregate balance of these accounts exceeded the federally insured (FDIC) limits by \$501,649 and \$383,985 respectively.

5. Concentration of Revenue

Support from Placer County in the form of contract contributed to 92% and 88% of the Association's total revenues and support for the years ended June 30, 2020 and 2019, respectively. The Association's contract with Placer County is renewed annually. At June 30, 2020, the Association owed Placer County \$183,552. At June 30, 2019, Placer County owed the Association \$37,633.

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6. Net Assets with Donor Restrictions

Restrictions on Association cash and investment balances at June 30, 2020 and 2019, consist of the following:

	2020	2019
TOT cash reserve	\$ 100,839	\$ 100,650

The restricted Transient Occupancy Tax (TOT) cash reserve is comprised of previous years' TOT fund balance of \$100,000. The policy restricts use of these assets to only those that achieve public benefit, as agreed to by contract between Placer County and the Association. Expenditure shall only occur following approval by the Association's Board of Directors and approval by the Placer County Executive Office.

7. Property and Equipment

Property and equipment at June 30, 2020 and 2019, consists of the following:

	2020	2019
Furniture and fixtures	\$ 45,289	\$ 45,289
Computer equipment	4,270	4,270
Computer software	20,493	20,493
Leasehold improvements	24,284	24,284
	94,335	94,335
Less accumulated depreciation	(94,335)	(92,928)
Net property and equipment	\$ -0-	\$ 1,407

Depreciation expense was \$1,407 and \$1,633 for the years ended June 30, 2020 and 2019 respectively.

8. Operating Leases

The Association leases various facilities and equipment from others under non-cancellable operating leases expiring in May, 2022. Lease rent expense, including real property taxes and common area costs, was \$157,324 in 2020 and \$153,525 in 2019. Minimum lease payments are subject to escalation clauses and options to renew. At June 30, 2020, future minimum lease payments under such leases to the end of the contract are as follows:

Year Ending June 30	
2021	\$ 114,000
2022	95,000
Total	\$ 209,000

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9. Retirement Plan

The Association offers a 401(k) retirement plan to all full-time employees who have completed at least three months of service. The Association matches 100% of the participants first 2% of contributions and 50% of the next 4% of contributions for all participating employees. Contributions to the plan by the Association were \$30,939 and \$34,677 for the years ended June 30, 2020 and 2019, respectively.

10. Liquidity and Availability of Resources

The Association's goal is to use as much of the funding from Placer County as possible on the projects included in the budget approved by both parties. The Association manages its financial assets to be available as its general expenditures, liabilities and other obligations come due.

At June 30, 2020 and 2019, the following financial assets were available to meet general expenditures over the next twelve months:

Financial Assets at Year End	2020	2019
Cash	\$ 836,155	\$ 664,366
Accounts receivable, net	229,517	102,913
Total financial assets	<u>1,065,672</u>	<u>767,279</u>
Adjustments:		
Less: Net assets with donor restrictions (Note 6)	(100,839)	(100,650)
Less: Board designated marketing reserve (Note 3)	(374,608)	(358,220)
Financial Assets Available	<u>\$ 590,225</u>	<u>\$ 308,409</u>

11. Subsequent Events

Subsequent events have been evaluated by management through October 21, 2020, the date that the statements were available for issuance.