

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

Tahoe City, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2016 and 2015

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, 2016 and 2015, and the related statements of activities and changes in net assets 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, 2016 and 2015, 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

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
October 17, 2016

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

Exhibit A

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 626,330	\$ 533,545
Restricted TOT cash reserve (Note 6)	100,048	-0-
Accounts receivable, net of allowance for doubtful accounts of \$36,595 and \$-0- in 2016 and 2015	110,926	91,147
Placer County receivable	-0-	605,108
Prepaid expenses	8,876	123,249
Inventories	32,408	29,510
	<u>878,588</u>	<u>1,382,559</u>
Noncurrent Assets:		
Property and equipment, net of accumulated depreciation (Note 7)	2,964	8,009
	<u>2,964</u>	<u>8,009</u>
Total Assets	<u>\$ 881,552</u>	<u>\$ 1,390,568</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 182,993	\$ 112,646
Placer County payable	23,941	-0-
Accrued liabilities	171,526	172,911
Deferred revenue - membership dues	69,550	59,231
Deferred revenue - other	-0-	14,761
	<u>448,010</u>	<u>359,549</u>
Total Liabilities (all current)	<u>448,010</u>	<u>359,549</u>
NET ASSETS (Note 2)		
Unrestricted		
Invested in property and equipment	2,964	8,009
Designated marketing reserve (Note 3)	304,323	316,692
Designated visitor support and transportation (Note 3)	-0-	205,203
Undesignated	26,206	501,115
Total Unrestricted	<u>333,494</u>	<u>1,031,019</u>
Temporarily Restricted (Note 6)	100,048	-0-
Total Net Assets	<u>433,542</u>	<u>1,031,019</u>
Total Liabilities and Net Assets	<u>\$ 881,552</u>	<u>\$ 1,390,568</u>

The accompanying notes are an integral part of these statements.

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NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

Exhibit B

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CHANGES IN NET ASSETS:		
Revenue and other support:		
Placer County grant revenue	\$ 3,041,943	\$ 3,460,716
Placer County infrastructure grant revenue	197,820	231,408
Commissions and booking fees	188,358	118,287
Member dues	135,527	141,038
Member services and special events	114,546	107,810
Retail sales and other	78,864	119,492
Interest income	66	36
	<u>3,757,125</u>	<u>4,178,787</u>
Expenses and losses:		
Program services:		
Marketing	2,154,120	1,826,950
Group sales and conferences	340,228	394,060
Visitor support and transportation	151,582	700,700
Visitor information	340,025	338,325
North Lake Tahoe Chamber of Commerce	192,549	154,678
Infrastructure	146,622	160,524
	<u>3,325,126</u>	<u>3,575,237</u>
Supporting services:		
General and administrative	465,439	418,850
	<u>465,439</u>	<u>418,850</u>
Total expenses	<u>3,790,565</u>	<u>3,994,087</u>
Increase (Decrease) in Net Assets	(33,441)	184,700
NET ASSETS		
Net assets distributed to Placer County	<u>(564,037)</u>	<u>-0-</u>
Beginning of Year	<u>1,031,019</u>	<u>846,319</u>
End of Year	<u><u>\$ 433,542</u></u>	<u><u>\$ 1,031,019</u></u>

The accompanying notes are an integral part of these statements.

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	\$ (33,441)	\$ 184,700
Reconciliation of change in net assets to cash (used) provided by operating activities		
Depreciation	6,164	7,170
Changes in operating assets and liabilities:		
Accounts receivable	(19,779)	47,826
Placer County receivable/payable	629,050	(67,378)
Prepaid expenses	114,373	9,235
Inventories	(2,898)	(208)
Accounts payable	70,347	(44,224)
Accrued liabilities	(1,385)	32,291
Deferred revenue - membership dues	10,319	(13,169)
Deferred revenue - other	(14,761)	29
Net Cash Provided by Operating Activities	<u>757,990</u>	<u>156,272</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(1,120)</u>	<u>(2,422)</u>
Net Cash Used by Investing Activities	<u>(1,120)</u>	<u>(2,422)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net assets distributed to Placer County	<u>(564,037)</u>	<u>-0-</u>
	<u>(564,037)</u>	<u>-0-</u>
Net Increase in Cash and Cash Equivalents	192,833	153,850
Cash and Cash Equivalents, Beginning of Year	<u>533,545</u>	<u>379,695</u>
Cash and Cash Equivalents, End of Year	<u>\$ 726,378</u>	<u>\$ 533,545</u>

The accompanying notes are an integral part of these statements.

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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 of 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 grants 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. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in ASC 958, “*Financial Statements of Not-for-Profit Organizations.*” Under ASC 958, the Association reports information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets (if any) and permanently restricted net assets (if any). At June 30, 2016 and 2015, there were no temporarily restricted or permanently restricted net assets, as the Association has not received these types of contributions.

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.

Recognition of Placer County Contract Grant Revenue

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.

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Placer County contract grant revenues are recognized as revenue during the contract year, unless specifically restricted by the contract.

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.

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 \$1,000. 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 \$1,089,500 and \$878,747 for the years ended June 30, 2016 and 2015, 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 and balances are reported separately from those of the Association.

Unrestricted Net Assets

All net asset balances are classified as unrestricted, excluding the restricted cash flow reserve 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 unrestricted net assets for specific purposes.

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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 costs of providing the various programs and other activities have been summarized on a function basis in the statement of activities. Accordingly, certain costs, other than general and administrative costs, have been allocated among the program and supporting services benefited.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all unrestricted cash, money market funds, and debt securities with an original maturity less than three months to be cash equivalents.

Fair Value

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

3. Designated Net Assets

Pursuant to its contract with Placer County, the Association created a visitor support and transportation fund which designates net assets from visitor support and transportation result of activities annually. The designated visitor support and transportation net assets totaled \$0- and \$205,203 at June 30, 2016 and 2015 respectively. During 2016, the Association remitted to Placer County the balance of the designated visitor support and transportation net asset balance and an additional \$358,834 in unrestricted net asset balance as of June 30, 2015. The payments were requested by Placer County and approved by the Association's board of directors.

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 transit 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 annual marketing, conference and visitor information center expenditures. The

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

designated marketing reserve totaled \$304,323 and \$316,692 at June 30, 2016 and 2015 respectively.

4. Concentration of Credit Risk

The Association maintains its cash accounts at a local bank. At June 30, 2016 and 2015, the aggregate balance of these accounts exceeded the federally insured (FDIC) limits by \$229,613 and \$304,083 respectively.

5. Concentration of Revenue

Support from Placer County in the form of contract grants contributed to 86% and 88% of the Association's total revenues and support for the years ended June 30, 2016 and 2015, respectively. The Association's contract with Placer County is renewed annually. The Association owed Placer County \$23,941 at June 30, 2016. The receivable from Placer County at June 30, 2015 was \$605,108 respectively.

6. Restricted Cash and Investments

Restrictions on Association cash and investment balances at June 30, 2016 and 2015, consist of the following:

	2016	2015
TOT cash reserve	\$ 100,048	\$ -0-
	<u>\$ 100,048</u>	<u>\$ -0-</u>

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 Board of Directors and approval by the Placer County Executive Office.

NORTH LAKE TAHOE RESORT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

7. Property and Equipment

Property and equipment at June 30, 2016 and 2015, consists of the following:

	2016	2015
Furniture and fixtures	\$ 68,768	\$ 68,768
Computer equipment	43,766	43,766
Computer software	34,995	33,874
Leasehold improvements	24,284	24,284
	<u>171,813</u>	<u>170,692</u>
Less accumulated depreciation	(168,849)	(162,683)
Net property and equipment	<u>\$ 2,964</u>	<u>\$ 8,009</u>

Depreciation expense was \$6,164 and \$7,170 for the years ended June 30, 2016 and June 30, 2015 respectively.

8. Operating Leases

The Association leases various facilities and equipment from others under non-cancellable operating leases expiring in May, 2017. Lease rent expense, including real property taxes and common area costs, was \$140,716 in 2016 and \$137,190 in 2015. Minimum lease payments are subject to escalation clauses and options to renew. At June 30, 2016, future minimum lease payments under such leases to the end of the contract are as follows:

<u>Year Ending June 30</u>	
2017	<u>\$ 85,500</u>

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 participant contributions of up to 4% to the plan based on up to 6% of the participant's regular salary. Contributions to the plan by the Association were approximately \$35,995 and \$30,177 for the years ended June 30, 2016 and 2015, respectively.

10. Subsequent Events

Subsequent events have been evaluated by management through, October 17, 2016, the date that the statements were available for issuance.