

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

Tahoe Vista, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

December 31, 2019 and 2018

# TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

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# McCLINTOCK ACCOUNTANCY CORPORATION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Tahoe Sands Time Share Owners Association

We have audited the accompanying financial statements of Tahoe Sands Time Share Owners Association, which comprise the balance sheet as of December 31, 2019, and the related statements of revenue and expenses and changes in fund balances and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Tahoe Sands Time Share Owners Association as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Disclaimer of Opinion on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on Future Major Repairs and Replacement on page 12 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of 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.

## *Comparative Information*

Information for the year ended December 31, 2018 is presented for comparative purposes only and was extracted from the financial statements presented for that year, on which we expressed an unmodified opinion on our report dated April 16, 2019.

*McClintock Accountancy Corporation*

McCLINTOCK ACCOUNTANCY CORPORATION  
Tahoe City, California  
April 13, 2020

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

Exhibit A

BALANCE SHEETS

December 31, 2019 (with comparative totals for 2018)

	2019			2018
	Operating Fund	Replacement Fund	Total	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 805,249	\$ 406,593	\$ 1,211,842	\$ 1,109,462
Assessments receivable, net of allowance for doubtful accounts of \$35,658 in 2019 and \$12,387 in 2018	259,383	-0-	259,383	6,854
Prepaid expenses	14,954	-0-	14,954	12,059
Due (to)/from (Note 11)	96,264	(96,264)	-0-	-0-
Property and equipment, net of accumulated depreciation of \$16,715 in 2019 and \$10,028 in 2018 (Note 8)	30,081	-0-	30,081	36,768
<b>Total Assets</b>	<u>\$ 1,205,931</u>	<u>\$ 310,329</u>	<u>\$ 1,516,260</u>	<u>\$ 1,165,143</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Accrued expenses	\$ 433,081	\$ 11,778	\$ 444,859	\$ 57,985
Assessments paid in advance	620,310	-0-	620,310	557,701
Note payable (Note 10)	24,178	-0-	24,178	33,537
<b>Total Liabilities</b>	<u>1,077,569</u>	<u>11,778</u>	<u>1,089,347</u>	<u>649,223</u>
<b>Fund Balances</b>	<u>128,362</u>	<u>298,551</u>	<u>426,913</u>	<u>515,920</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,205,931</u>	<u>\$ 310,329</u>	<u>\$ 1,516,260</u>	<u>\$ 1,165,143</u>

The accompanying notes are an integral part of these statements.

## STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2019 (with comparative totals for 2018)

	2019			2018
	Operating Fund	Replacement Fund	Total	Total
<b>Revenue</b>				
Homeowner assessments	\$ 1,155,073	\$ 120,903	\$ 1,275,976	\$ 1,324,040
Room revenue (Note 6)	219,032	-0-	219,032	227,392
Insurance proceeds (Note 14)	780,911	-0-	780,911	-0-
Late fees	10,925	-0-	10,925	15,675
Gift shop, activities and front desk, net of cost of sales of \$2,344 in 2019 and \$1,997 in 2018	8,539	-0-	8,539	14,403
Miscellaneous income	7,394	-0-	7,394	5,041
Transfer fees	1,900	-0-	1,900	3,564
Interest income	2,312	-0-	2,312	1,414
<b>Total Cash Receipts</b>	<b>2,186,086</b>	<b>120,903</b>	<b>2,306,989</b>	<b>1,591,529</b>
<b>Expenses</b>				
<b>Management and Front Desk</b>				
Salaries, benefits and workman's comp	312,124	-0-	312,124	250,851
Hospitality	11,822	-0-	11,822	11,086
Office supplies	18,787	-0-	18,787	17,026
<b>Housekeeping</b>				
Salaries, benefits and workman's comp	204,070	-0-	204,070	189,557
Linen replacement	5,944	-0-	5,944	4,920
Supplies	22,168	-0-	22,168	21,902
Carpet cleaning	3,568	-0-	3,568	1,747
<b>Maintenance</b>				
Salaries, benefits and workman's comp	191,593	-0-	191,593	180,940
Appliance repairs	1,080	-0-	1,080	1,130
Building and buoy field repairs and supplies	36,015	-0-	36,015	47,853
Grounds repairs and supplies	5,104	-0-	5,104	7,614
Pest control	2,891	-0-	2,891	2,928
Pool repairs and supplies	7,776	-0-	7,776	4,610
Snow removal	23,523	-0-	23,523	3,063
Automobile	18,179	-0-	18,179	13,320
Lighting	617	-0-	617	1,579
Fire protection	590	-0-	590	1,881
Fire damage repairs (Note 14)	770,000	-0-	770,000	-0-
Utilities	186,516	-0-	186,516	165,125
<b>General and Administrative</b>				
Management contract	193,554	-0-	193,554	194,033
Payroll tax	62,592	-0-	62,592	53,111
Insurance	56,755	-0-	56,755	47,686
Property tax	32,863	-0-	32,863	33,104
Bank charges	18,734	-0-	18,734	19,264
Board and annual meeting	11,246	-0-	11,246	11,498
Printing	9,662	-0-	9,662	10,338
Employee incentive	6,484	-0-	6,484	7,356
Postage	3,431	-0-	3,431	3,457
Training	1,734	-0-	1,734	3,972
Permits and fees	2,564	-0-	2,564	2,448
Travel	265	-0-	265	2,104
Audit & tax fees	9,557	-0-	9,557	10,240
Income tax	116	-0-	116	82
Bad debt	53,187	-0-	53,187	115,978
Occupancy tax	13,608	-0-	13,608	-0-
Legal	19,911	-0-	19,911	-0-
Depreciation	6,687	-0-	6,687	6,687
Replacement (Note 9)	-0-	70,679	70,679	184,732
<b>Total Expenses</b>	<b>2,325,317</b>	<b>70,679</b>	<b>2,395,996</b>	<b>1,633,222</b>
Revenue Over (Under) Expenses	(139,231)	50,224	(89,007)	(41,693)
Fund Balances, Beginning of Year	267,593	248,327	515,920	557,613
Fund Balances, End of Year	\$ 128,362	\$ 298,551	\$ 426,913	\$ 515,920

**STATEMENTS OF CASH FLOWS**  
For the Year Ended December 31, 2019 (with comparative totals for 2018)

	2019			2018
	Operating Fund	Replacement Fund	Total	Total
Cash Flows from Operating Activities:				
Revenue Over (Under) Expenses	\$ (139,231)	\$ 50,224	\$ (89,007)	\$ (41,693)
Adjustments:				
Depreciation	6,687	-0-	6,687	6,687
Provision for bad debts	53,188	-0-	53,188	115,978
Change in assessments receivable	(305,716)	-0-	(305,716)	(114,874)
Change in due (to) / from	54,670	(54,670)	-0-	-0-
Change in other assets	(2,895)	-0-	(2,895)	35
Change in accounts payable and accrued liabilities	381,038	5,836	386,874	4,455
Change in dues paid in advance	62,608	-0-	62,608	(11,692)
Net Cash Provided (Used) by Operating Activities	<u>110,349</u>	<u>1,390</u>	<u>111,739</u>	<u>(41,104)</u>
Cash Flows from Financing Activities:				
Principal payments on note payable	(9,359)	-0-	(9,359)	(9,359)
Net Cash Used by Financing Activities	<u>(9,359)</u>	<u>-0-</u>	<u>(9,359)</u>	<u>(9,359)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	100,990	1,390	102,380	(50,463)
Cash and Cash Equivalents, Beginning of Year	<u>704,259</u>	<u>405,203</u>	<u>1,109,462</u>	<u>1,159,925</u>
Cash and Cash Equivalents, End of Year	<u>\$ 805,249</u>	<u>\$ 406,593</u>	<u>\$ 1,211,842</u>	<u>\$ 1,109,462</u>
Supplementary Cash Flow Information				
Income taxes paid	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

1. Form of Organization

Tahoe Sands Time Share Owners Association (the “Association”) is an incorporated association organized under the laws of the State of California on October 21, 1981. The Association’s members consist of those persons or entities who own condominium units at the Tahoe Sands Resorts, a timeshare estate project in Tahoe Vista, California. The Association is a non-profit mutual benefit corporation that was organized for the purpose of providing management, administration, preservation, repair, operation and architectural control of common property within the Association. The Association is supported by the assessments of the sold units within the development. There are 53 condominium units in the development for a total of 2,729.5 timeshare intervals. There were 1,218 and 1,241.5 unsold intervals as of December 31, 2019 and 2018, respectively, which are assigned to and controlled by the Association’s management company and not subject to assessment.

2. Summary of Significant Accounting Policies

A. The Association's governing documents and policies provide certain guidelines for controlling its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts on the fund accounting basis. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association.

Replacement Fund - Used to accumulate financial resources designated for future major repairs and replacements.

B. Personal property and equipment (not including common area and unit interior furnishings) is recorded at cost and depreciated over the estimated useful lives ranging from three to seven years using the straight-line method. Real property and equipment owned by the Association (consisting primarily of the Association lobby and office space building, land and pool) is not capitalized and depreciated, as allowed for under generally accepted accounting principles followed by common interest subdivisions.

C. Association members are subject to assessments billed annually to provide funds for the Association’s operating expenses and major repairs and replacement. The Association’s policy includes, among other things, assessing a late charge and interest on assessments unpaid after 30 days, retaining a collection agency and placing liens on the property of the members whose assessments are delinquent. The Association derives a significant portion of its revenues from dues assessments that are levied against each member within the development.

D. For 2019, 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



TAHOE SANDS TIME SHARE OWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, 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.

As described in Note 2. C., Association members are subject to annual assessments that provide funds for the Association's operating expenses and major repairs and replacements. Association management has considered Topic 606 and concluded that Association members are not customers as defined in the ASC. As such, all assessment revenue, including amounts allocated to the replacement fund, is recognized in the period in which it is assessed, regardless of when it is collected or expended. This treatment is substantially consistent with the Association's accounting in previous years.

- E. Contract revenue consists of gift shop, front desk, activities and rental revenue from Association members and non-members. This revenue is recognized as the performance obligations are satisfied, in accordance with Topic 606, at transaction amounts expected to be collected. The Association's performance obligations related to its contract revenue is satisfied on a pro-rata basis over the period for which the income applies. A contract liability (income received in advance) is recorded when the Association has the right to receive payment in advance of the performance obligations related to the income.

Substantially all of the Association's contract revenue pertains to programs that were completed prior to December 31, 2019, therefore the balance of the Association's contract liabilities was \$-0- as of December 31, 2019. No significant revenue was recognized in the current year resulting from performance obligations satisfied in previous periods.

In summary, the adoption of the new revenue recognition guidance did not result in any changes to the fund balances as of January 1, 2019 or the balance sheet or results of operations for the year ended December 31, 2019.

- F. The Association is taxed as a regular corporation. Member revenue can be offset to the extent of member expenses. In general, dues allocated for future major repairs and replacements can be set aside on a tax-free basis if applicable guidelines are followed. Additionally, other amounts received by the Association, such as investment income, are taxed net of related expenses for federal and state purposes. In general, the Association's three previous federal tax returns and four previous state tax returns are available for examination by the taxing authorities.
- G. The Association earns interest on various bank accounts. Income taxes provided on replacement fund interest income, if any, are charged to the operating fund for simplicity.
- H. For purposes of the Statement of Cash Flows, cash and cash equivalents are defined as cash held in demand accounts and money market accounts.

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

- I. The carrying amounts of financial instruments, including cash, accounts receivable and accounts payable approximates their fair value due to the short-term maturities of these instruments.
- J. Deferred income represents dues billed in the current period applicable to the following period.
- K. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

3. Concentration of Credit Risk

The Association maintains accounts at various banks. At December 31, 2019 and 2018 the accounts exceeded the federally insured limit by \$432,996 and \$412,273, respectively.

4. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

In 2019, the Association updated a study to estimate the remaining lives and replacement costs of the common property. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to any necessary member approval, to increase regular assessments or levy special assessments. The Association may also delay major repairs and replacements until funds are available.

5. Income Taxes

The provisions (benefit) for income taxes is as follows:

	2019	2018
Federal	\$ -0-	\$ -0-
State	(104)	82
	\$ (104)	\$ 82

The current year state benefit is due to over accruing for taxes in a prior year.

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

6. Rental of Unoccupied Units

In addition to owners who occupy the timeshare units in the Association, other programs allow for additional owner usage and non-owner usage, which are as follows:

- A. Owners may reserve and use certain units under a bonus time program. Bonus time, as defined, is available to owners on a first-come, first-serve basis for a per-night fee.
- B. The Association also rents unsold intervals and retains the related rental revenue.

7. Contract for Services

Under the terms of a management agreement, management, maintenance and operating functions are performed for the Association. The Association reimburses the management company for maintenance, labor and repair materials according to terms set forth in the management agreement. Expenses for the management agreement were \$193,554 and \$194,033 and contributed to 9% and 13% of the Association's total operating expenses for the years ended December 31, 2019 and 2018, respectively.

8. Property and Equipment

Association property and equipment consisted of the following:

	2019	2018
Equipment	\$ 46,796	\$ 46,796
Accumulated depreciation	(16,715)	(10,028)
	\$ 30,081	\$ 36,768

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

9. Replacement Expenses

Replacement expenses for the years ending December 31 were as follows:

	2019	2018
Driveway slurry	\$ -0-	\$ 16,636
Window replacement	8,125	-0-
Flooring	-0-	49,488
Decking	-0-	26,766
Sliding glass doors	8,185	-0-
TVs	-0-	10,945
Lighting	-0-	3,023
Landscape ADA and BMPs	38,754	10,685
Lobby heater	3,791	-0-
Pool towels	-0-	4,235
Appliance replacement	5,989	4,560
Furniture replacement	-0-	35,656
Exterior painting	-0-	5,040
Outdoor furniture	-0-	9,630
Phone lines	-0-	3,648
Miscellaneous	5,835	4,420
Total	\$ 70,679	\$ 184,732

10. Note Payable

In July of 2017, the Association acquired equipment and entered into a \$46,795 five-year interest-free note payable secured by the equipment. The note is payable in monthly installments of \$780 through July of 2022. Future payments consist of the following:

2020	\$ 9,359
2021	9,359
2022	5,460
	\$ 24,178

11. Interfund Activity

The Association maintains an operating fund and a replacement fund. The replacement fund assessments are collected by the operating fund and paid over to the replacement fund. At various time throughout the year, there is a receivable/payable (due to/due from) between the funds. At December 31, 2019 and 2018, the amount owed by the replacement fund to the operating fund was \$96,264 and \$150,934, respectively.

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

12. Leases

The club entered into an operating lease agreement for a copier requiring 63 minimum lease payments of approximately \$138. The lease expires in October of 2022. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u></u>
2020	\$ 1,651
2021	1,651
2022	1,376
	<u>\$ 4,768</u>

13. Commitments

During 2018, the Association entered into a contract for landscaping civil design services for \$9,810. As of December 31, 2019 and 2018, \$795 and \$4,625 remains to be spent on the contract.

14. Insurance Proceeds

In January of 2019, a fire caused significant damage to several units. As of December 31, 2019, the Association received \$530,550 in insurance proceeds to cover the expenses to bring the units back into operation. As of December 31, 2019, \$435,619 has been spent on repairs and renovations to the damaged units. The Association expects to incur \$334,381 in additional related expenses and receive \$239,450 in additional related insurance proceeds.

During 2019, the Association entered litigation for a wrongful termination case against a former employee. The Association settled with the prosecution and insurance reimbursed the Association for \$10,911 of the costs.

15. Subsequent Events

Subsequent events have been evaluated by management through April 13, 2020, the date that the statements were available for issuance.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of the Association facilities. While disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Association expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot reasonably be estimated at this time.

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION  
 REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
 REPLACEMENTS  
 December 31, 2019

(Unaudited)

The Association's Board of Director's engaged a consultant during 2019 to update the study of the estimated useful lives, the life after replacement and the replacement costs of the components of common property. The estimates were based on the consultants and contractor's estimates and historical costs. An inflation factor of 3% is incorporated into the study.

The total available for major repairs and replacements as of December 31, 2019, is \$298,551.

The following table is based on the study and presents significant information about the components of common property for which funds are being set aside.

Component	Estimated Remaining Life (Years)	Life After Replacement (Years)	Current Replacement Cost
Grounds	1-23	5-36	\$ 589,205
Recreation	0-7	2-30	58,235
Building exteriors	0-28	1-35	677,845
Lounge/office	9-19	15-20	69,650
Building interiors	0-28	1-30	1,622,935
Pools and spa	0-19	1-30	178,220
Mechanical equipment	1-19	5-30	160,890
Maintenance equipment	1-9	10-15	76,670
			\$ 3,433,650