VISIT RAPID CITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2022

Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants
ktllp.com

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Visit Rapid City
Rapid City, South Dakota

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of **VISIT RAPID CITY (**the Organization), which comprise the statement of financial position as of December 31, 2022 and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements were available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Board of Directors

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain other internal control matters that we identified during the audit.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

August 16, 2023

FINANCIAL STATEMENTS

Visit Rapid City
Statement of Financial Position
December 31, 2022

ASSETS	
Cash	$ 1,667,926
Investments	1,008,729
Unconditional Promises to Give	384,034
Prepaid Expenses	8,592
Property and Equipment, Net of Depreciation	107,917
Operating Lease Right to Use Asset	65,723
Financing Lease Right to Use Asset, Net of Amortization	9,586
TOTAL ASSETS	$ 3,252,507
LIABILITIES AND NET ASSETS	
Accounts Payable	$ 88,918
Unearned Revenue	43,861
Amounts Held for Others	18,931
Operating Lease Liability	73,876
Financing Lease Liability	9,862
Total Liabilities	235,448
NET ASSETS	
Net Assets Without Donor Restrictions	
Board Designated	1,000,000
Undesignated	2,017,059
Total Net Assets	3,017,059
TOTAL LIABILITIES AND NET ASSETS	$ 3,252,507

The accompanying notes are an integral part of this statement.

Visit Rapid City
Statement of Activities
For the Year Ended December 31, 2022

NET ASSETS WITHOUT DONOR RESTRICTIONS	
Support, Gains, and Other Revenues:	
Tax Revenues	$ 2,993,019
Partnership Fees	26,225
Net Investment Return	11,118
Interest	6,973
Total Support, Gains, and Other Revenues	3,037,335
Expenses:	
Program Expenses	3,206,253
Management and General	360,748
Total Expenses	3,567,001
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(529,666)
NET ASSETS, BEGINNING	3,546,725
NET ASSETS, ENDING	$ 3,017,059

The accompanying notes are an integral part of this statement.

Visit Rapid City
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program	Management and General	Total
Salaries and Wages	$ 680,302	$ 170,076	$ 850,378
Employee Benefits	99,248	24,811	124,059
Payroll Taxes	50,830	12,708	63,538
Total Wages and Benefits	830,380	207,595	1,037,975
Advertising	2,081,972	-	2,081,972
Professional Services	119,364	109,516	228,880
Office	38,608	9,654	48,262
Training and Education	36,443	9,111	45,554
Occupancy	24,330	6,082	30,412
Dues	20,353	5,089	25,442
Depreciation	17,502	4,375	21,877
Information Technology	13,819	3,455	17,274
Insurance	6,776	1,694	8,470
Travel	6,716	1,679	8,395
Amortization	4,862	1,215	6,077
Interest	4,000	1,000	5,000
Repair and Maintenance	1,128	283	1,411
	$ 3,206,253	$ 360,748	$ 3,567,001

The accompanying notes are an integral part of this statement.

Visit Rapid City
Statement of Cash Flows
For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ (529,666)
Adjustments to Reconcile Change in Net Assets to Net Cash	
Used by Operating Activities	
Depreciation	21,877
Amortization	6,077
Gain on Investments	(8,729)
(Increase) Decrease in:	
Promises to Give	197,967
Prepaid Insurance	85
Increase (Decrease) in:	
Accounts Payable	26,586
Unearned Revenue	20,435
Amounts Held for Others	2,632
Lease Liability/ ROU Asset- Net	204
Net Cash Used by Operating Activities	(262,532)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Fixed Assets	(33,769)
Purchase of Investments	(1,000,000)
Net Cash Used by Investing Activities	(1,033,769)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of Finance Lease Liability	(6,067)
NET DECREASE IN CASH	(1,302,368)
CASH - BEGINNING OF YEAR	2,970,294
CASH - END OF YEAR	$ 1,667,926

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Visit Rapid City (the Organization), is a non-profit organization classified by the Internal Revenue Services as tax-exempt under Section 501(c)(6). The Organization was formed in 1971 and promotes leisure travel, special and sporting events, and group travel and tours to the Rapid City, South Dakota and the Black Hills areas.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. Therefore, they reflect all significant receivables, payables, and other liabilities.

Cash

For financial statement purposes, cash consists of checking and savings accounts. The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and management does not believe it is exposed to any significant credit risk.

Investments

The Organization reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations. The guidance prescribes that covered investments be reported on the Statement of Financial Position at fair value. Investment income is recognized as revenue in the period it is earned, and gains and losses are recognized as changes in net assets in the accounting period in which they occur. Net investment return (loss) is reported on the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. Realized gains and losses are determined on a specific identity basis.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of $2,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets. Purchased property and equipment are carried at cost. Donated property and equipment are recorded as contributions or grant revenue at their estimated fair value at the date of the donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Equipment and Vehicles	5 - 7 years
Leasehold Improvements	5 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets of the Organization that are not subject to donor-imposed restrictions and are available for general operations. The Board has designated, from net assets without donor restrictions, an operating reserve in the amount of $1,000,000.

Net Assets with Donor Restrictions - The part of net assets of the Organization that are subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2022, the Organization has no donor-imposed restrictions.

Promises to Give

Promises to give consist primarily of sales and occupancy taxes that are expected to be remitted to the Organization based on estimated occupancy rates. The Organization records promises to give, net of allowances for estimated uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was received. Conditional gifts, with measurable performance or other barriers and right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor.

Tax Revenues

The City of Rapid City collects sales taxes and lodging taxes within specified areas and remits those collections to Visit Rapid City. Statutes and ordinances require the taxes to be used to support tourism and marketing activities of the City. These taxes are collected by the state in the month following the eligible sales or lodging rentals and remitted to the City the month after collection by the state. The City remits the tax collection to Visit Rapid City upon receipt.

Partnership Revenues

Partnership revenues are billed to local businesses that wish to partner with Visit Rapid City in advertising campaigns. Partnership revenues are billed according to contracts with each business. Partnership dues are recognized ratably over the period the partnership is provided on a straight-line basis in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. All of the Organization’s revenue from contracts with customers is from performance obligations satisfied over time. Prices are specific to a distinct performance obligation and do not consist of multiple transactions. Partnership dues paid to the Organization in advance represent contract liabilities and are recorded as unearned revenue. Amounts billed but unpaid are contract assets and recorded as accounts receivable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following tables provide information about significant changes in the contract liabilities for the years ended December 31, 2022.

Unearned Partnership Fees, Beginning of Year	$	23,426
Revenue Recognized that Was Included in Unearned Partnership Fees at Beginning of Year		(23,426)
Increase in Unearned Partnership Fees, Due to Cash Received During the Year		43,861
Unearned Partnership Fees, End of Year	$	43,861

Concentrations

The Organization receives substantially all of its revenues from taxes related to sales and hotel occupancy in Rapid City, South Dakota. Changes in Rapid City ordinances pledging revenues to the Organization could negatively impact the financial condition of Visit Rapid City.

Functional Expenses

The Statement of Functional Expenses presents the natural classification detail of expenses by function. Certain expenses can be directly allocated to programs or supporting functions. Most categories of expenses are attributable to more than one program or supporting function and require allocation on a reasonable basis that is consistently applied. Accordingly, those costs have been allocated among program and management and general activities based on hours, space utilized, or other reasonable allocations.

Leases

The Organization has entered into operating and finance leases for office space and equipment. The obligations associated with these leases have been recognized as a liability in the statement of financial position based on future lease payments, discounted by the incremental borrowing rate for the operating leases and the rate implicit in the lease for finance leases. Lease terms may include options to extend or terminate certain leases and are reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

The Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the term of the lease.

Federal Income Taxes

The Organization qualifies as an exempt organization under Section 501(c)(6) of the Internal Revenue Code. The Organization is not liable for income taxes if it operates within the confines of its exempt status. However, the Organization may be responsible for taxes on unrelated business activities. In the event of an examination of the income tax returns, the tax liability of the Organization could be changed if taxing authorities adjust the tax-exempt purpose of the Organization or if taxing authorities determine activities are subject to unrelated business income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of December 31, 2022, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statement. The Organization's income tax filings are subject to audit by various taxing authorities. The Organization is no longer subject to federal and state income tax examinations by taxing authorities for years before fiscal year 2019. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Organization believes its estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

Advertising

The Organization's main purpose is to promote the Rapid City area. Advertising expense for the year ended December 31, 2022 was $2,081,972.

Liquidity

Assets and liabilities are presented in the order of liquidity in the statement of financial position. Any further restrictions are disclosed in the notes to the financial statements.

Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reporting and classification of amounts at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial Assets Available for Use:	
Cash	$ 1,667,926
Investments	1,008,729
Unconditional Promises to Give	384,034
Total Available Assets	$ 3,060,689

The Organization's assets available for use consist of cash, investments, and unconditional promises to give expected to be collected currently. The Organization's tax and partnership revenues are sufficient to cover operating costs.

NOTE 3 - AMOUNTS HELD FOR OTHERS

The Organization acts as an agent for an unrelated organization performing services in the community. The Organization has recognized receipts collected and disbursements paid as increases and decreases, respectively, of a liability rather than revenues and expenses.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2022:

Furniture, Equipment, and Vehicles	$	122,264
Leasehold Improvements		29,000
Total Property and Equipment		151,264
Less: Accumulated Depreciation		(43,347)
Total Property and Equipment, Net	$	107,917

NOTE 5 - LEASES

The right of use asset and corresponding liability associated with future lease payments at December 31, 2022 are shown below:

	Operating Leases	Finance Leases
Right of Use Assets	$ 65,723	$ 9,586
Lease Liability	73,876	9,862
Weighted Average:		
Discount Rate	4.16%	4.25%
Remaining Lease Term (Months)	38	32

Lease Cost

Lease costs reported in the statement of functional expenses under office, occupancy, and amortization amounted to $36,331, and were comprised of the following:

Finance:		
Amortization of Right of Use Assets	$	6,077
Interest on Lease Liability		402
Operating		26,691
Short-term (Less than 12 Months)		3,161
	$	36,331

Some equipment finance leases require additional payments based on usage of equipment. These variable payments are recognized as operating expenses as they are incurred.

NOTE 5 - LEASES (CONTINUED)

Future Lease Payments

The following operating and finance lease payments are expected to be paid for each of the following years ending December 31:

	Operating Leases	Finance Leases
2023	$ 29,352	$ 3,679
2024	29,532	3,679
2025	19,568	3,010
	78,452	10,368
Less: Discount	(4,576)	(506)
Total Lease Liability	$ 73,876	$ 9,862

NOTE 6 INVESTMENTS

The Organization uses a three-level hierarchy for the disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments that would generally be included in Level I include listed equities and listed derivatives. To the extent that it holds such investments, the Organization does not adjust the quoted price of these investments.

Level II – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted securities, and certain over-the-counter derivatives.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, distressed debt, and non-investment grade residual interests in securitizations and collateralized debt obligations.

NOTE 6 INVESTMENTS (CONTINUED)

The fair value of each financial instrument in the table below was measured using input guidance and valuation techniques. The following table sets forth the inputs used and the estimated fair values of financial instruments at December 31, 2022:

	Fair Value Measurements at Reporting Date	
	Level I	Total
U.S. Treasuries	$ 978,146	$ 978,146
Money Market Funds	30,583	30,583
Total Investments	$ 1,008,729	$ 1,008,729

NOTE 7 EMERGING ACCOUNTING STANDARDS

In 2016, the Financial Accounting Standards Board issued updates to ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard impacts the reporting and measurement of credit losses and enhances disclosures. The standard is effective for periods beginning after December 15, 2022. The Organization has not yet implemented this update and is in the process of assessing the effect on the financial statements.

NOTE 8 - SUBSEQUENT EVENTS

Subsequent events were evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued.