

PALOS VERDES BEACH AND ATHLETIC CLUB

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

PALOS VERDES BEACH AND ATHLETIC CLUB

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Unrestricted Revenues, Expenses, and Changes in Membership Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Palos Verdes Beach and Athletic Club

Report on the Financial Statements

We have audited the accompanying financial statements of the Palos Verdes Beach and Athletic Club (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of unrestricted revenues, expenses, and changes in membership equity 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 auditors consider 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 the significant 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 the Palos Verdes Beach and Athletic Club as of June 30, 2017 and 2016, and the changes in membership equity and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Dick Evans LLP

Irvine, California
May 30, 2018

PALOS VERDES BEACH AND ATHLETIC CLUB

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Assets:		
Current:		
Cash and cash equivalents	\$ 410,130	\$ 395,882
Investments	1,037,854	1,086,833
Accounts and membership fees receivable	27,162	636
Prepaid costs	81,658	85,893
Total Current Assets	<u>1,556,804</u>	<u>1,569,244</u>
Noncurrent:		
Property improvements and equipment, net	1,350,853	1,433,340
Total Noncurrent Assets	<u>1,350,853</u>	<u>1,433,340</u>
Total Assets	<u>\$ 2,907,657</u>	<u>\$ 3,002,584</u>
 Liabilities and Membership Equity		
Liabilities:		
Current:		
Accounts payable	\$ 70,807	\$ 24,671
Waiting list deposits	233,200	233,700
Other deposits	29,998	-
Total Current Liabilities	<u>334,005</u>	<u>258,371</u>
Total Liabilities	<u>334,005</u>	<u>258,371</u>
 Membership Equity:		
Unrestricted, cumulative excess of revenues over expenses	2,573,652	2,744,213
Total Membership Equity	<u>2,573,652</u>	<u>2,744,213</u>
Total Liabilities and Membership Equity	<u>\$ 2,907,657</u>	<u>\$ 3,002,584</u>

See accompanying notes to financial statements.

PALOS VERDES BEACH AND ATHLETIC CLUB

**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES, AND
CHANGES IN MEMBERSHIP EQUITY
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Unrestricted Revenues:		
Dues and membership fees	\$ 1,299,557	\$ 1,299,254
Initiation membership fees	123,800	101,300
Guest fees	95,761	105,322
Special events	10,663	11,869
Sales of merchandise	3,090	4,360
Program fees	91,174	91,289
Locker and facilities rental	35,446	47,802
Food services	98	(829)
Investment income	15,598	31,493
Other	66,225	76,901
Total Unrestricted Revenues	<u>1,741,412</u>	<u>1,768,761</u>
Unrestricted Expenses:		
Program Services:		
Labor and fringe benefits	1,014,809	965,968
Utilities	119,614	118,227
Facility cleaning services	72,078	64,088
Merchandise	1,796	3,159
Programs	58,310	61,550
Facility and pool repairs maintenance	246,459	214,569
Depreciation expense	82,487	82,198
Other	4,112	10,543
Total Program Services	<u>1,599,665</u>	<u>1,520,302</u>
Supporting Services:		
Insurance	74,461	68,616
Concession fee	160,241	163,597
General and administrative	55,480	52,903
Professional services	22,126	33,500
Total Supporting Services	<u>312,308</u>	<u>318,616</u>
Total Unrestricted Expenses	<u>1,911,973</u>	<u>1,838,918</u>
Changes in Membership Equity	(170,561)	(70,157)
Membership Equity:		
Membership equity, beginning	<u>2,744,213</u>	<u>2,814,370</u>
Membership equity, ending	<u>\$ 2,573,652</u>	<u>\$ 2,744,213</u>

See accompanying notes to financial statements.

PALOS VERDES BEACH AND ATHLETIC CLUB

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Changes in Membership Equity	\$ (170,561)	\$ (70,157)
Adjustments to reconcile changes in membership equity to net cash used in operating activities:		
Depreciation	82,487	82,198
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable and membership fees receivable	(26,526)	6,890
(Increase) decrease in prepaid costs	4,235	(6,106)
Increase (decrease) in accounts payable	46,136	(38,765)
Increase (decrease) in waiting list deposits	(500)	18,200
Increase (decrease) in other deposits	29,998	-
Total Adjustments	<u>135,830</u>	<u>62,417</u>
Net Cash Used in Operating Activities	<u>(34,731)</u>	<u>(7,740)</u>
Cash Flows from Investing Activities:		
Sales of investment, net	48,979	57,315
Purchases of property, plant, and equipment	-	(3,846)
Net Cash Provided by Investing Activities	<u>48,979</u>	<u>53,469</u>
Net Increase in Cash and Cash Equivalents	14,248	45,729
Cash and Cash Equivalents at Beginning of Year	<u>395,882</u>	<u>350,153</u>
Cash and Cash Equivalents at End of Year	<u>\$ 410,130</u>	<u>\$ 395,882</u>

See accompanying notes to financial statements.

PALOS VERDES BEACH AND ATHLETIC CLUB

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nature and Membership of Club

The Palos Verdes Beach and Athletic Club (the Club) is a nonprofit mutual benefit corporation organized under the California Nonprofit Mutual Benefit Corporation law. The Club offers its members full access to the Club's pool and athletic facilities. There are two categories of memberships: resalable memberships and nonresalable memberships. All members are entitled to vote on the election of the Board of Directors, the disposition of the assets of the Club, and any merger or election to dissolve the Club.

b. Basis of Accounting

The financial statements of the Club have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

c. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Updates. Under *Financial Statements of Not-for-Profit Organizations*, the Club is required to report information regarding its financial position and activities according to three classes of membership equity: unrestricted membership equity, temporarily restricted membership equity, and permanently restricted membership equity. The Club had only unrestricted membership equity at June 30, 2017 and 2016.

d. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Club considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

e. Investments/Investment Income

Investments are stated at fair value. Fees charged by the broker are netted against income earned by the investments held by the broker.

PALOS VERDES BEACH AND ATHLETIC CLUB

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Property Improvements and Equipment

Property improvements and equipment are carried at cost, or if donated at the approximate fair value at the date of donation. Depreciation and amortization of property and equipment are computed using a straight-line method based on the average useful life of the asset. The estimated useful lives of the assets are as follows:

Property improvements	39.5 years
Furniture, fitness, and pool equipment	10 years
Office and other equipment	7 years
Vehicles	5years

g. Membership Dues, Initiation Fees, and Wait List Deposits

Membership dues are recognized as revenue in the applicable membership period. Any unearned amounts are included in deferred revenue at the end of each accounting period. Initiation fees are recorded as revenue in the period when the fees are due.

Deposits received for inclusion on the wait list are recorded as a liability, and revenue is not recognized until the future member is offered and has accepted full membership.

h. Fair Value Measurements

FASB Accounting Standards Codification (ASC) 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

PALOS VERDES BEACH AND ATHLETIC CLUB

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Income Taxes

The Club has tax-exempt status under the provisions of Section 501(c)(7) of the Internal Revenue Code. Accordingly, no provision for income taxes is required.

j. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

k. Reclassifications

Certain reclassifications have been made to the prior-year financial statements in order for them to be in conformity with the current-year presentation.

2. CASH AND INVESTMENTS

Cash consists of demand accounts that are mainly interest bearing. Total cash and investments at June 30, 2017 and 2016, are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 410,130	\$ 395,882
Investments:		
Government agency bonds	953,982	915,924
Certificates of deposits	<u>83,872</u>	<u>170,909</u>
Total investments	<u>1,037,854</u>	<u>1,086,833</u>
Total Cash and Investments	<u>\$ 1,447,984</u>	<u>\$ 1,482,715</u>

The bank balance of the Club's cash and deposits was \$480,488 at June 30, 2017. The Club has \$98,019 in deposits that is not covered by Federal Deposit Insurance Corporation insurance. Outstanding checks and other reconciling items of \$70,358 must be subtracted from the bank balance to obtain the carrying balance of \$410,310.

The bank balance of the Club's cash and deposits was \$465,856 at June 30, 2016. The Club has \$127,572 in deposits that is not covered by Federal Deposit Insurance Corporation insurance. Outstanding checks and other reconciling items of \$69,974 must be subtracted from the bank balance to obtain the carrying balance of \$395,882.

PALOS VERDES BEACH AND ATHLETIC CLUB

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

2. CASH AND INVESTMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Club's investments at fair value as of June 30, 2017:

	<u>Fair Value</u>	Quoted Prices in Active Markets Identical Assets <u>(Level 1)</u>	Significant Observable Inputs <u>(Level 2)</u>	Other Significant Unobservable Inputs <u>(Level 3)</u>
Government agency bonds	\$ 953,982	\$ -	\$ 953,982	\$ -
Certificates of deposit	<u>83,872</u>	<u>83,872</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,037,854</u>	<u>\$ 83,872</u>	<u>\$ 953,982</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Club's investments at fair value as of June 30, 2016:

	<u>Fair Value</u>	Quoted Prices in Active Markets Identical Assets <u>(Level 1)</u>	Significant Observable Inputs <u>(Level 2)</u>	Other Significant Unobservable Inputs <u>(Level 3)</u>
Government agency bonds	\$ 915,924	\$ -	\$ 915,924	\$ -
Certificates of deposit	<u>170,909</u>	<u>170,909</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,086,833</u>	<u>\$ 170,909</u>	<u>\$ 915,924</u>	<u>\$ -</u>

3. PROPERTY IMPROVEMENTS AND EQUIPMENT

The Club's land and pool and any improvements to such are the property of the City of Palos Verdes Estates. The Club's interest in such assets is restricted to that of a tenant. The Club has recorded interest in the land and pool as property improvements.

PALOS VERDES BEACH AND ATHLETIC CLUB

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

3. PROPERTY IMPROVEMENTS AND EQUIPMENT (CONTINUED)

Property improvements and equipment consist of the following at June 30, 2017:

	Beginning Balance	Increase	Decrease	Ending Balance
Property Improvements and Equipment:				
Property improvement	\$ 2,932,231	\$ -	\$ -	\$ 2,932,231
Furniture, fitness, and pool equipment	276,291	-	-	276,291
Office and other equipment	48,645	-	-	48,645
Vehicles	<u>22,000</u>	-	-	<u>22,000</u>
Total property improvements and equipment	<u>3,279,167</u>	-	-	<u>3,279,167</u>
Less: Accumulated depreciation				
Property improvement	1,531,419	74,205	-	1,605,624
Furniture, fitness, and pool equipment	257,326	3,882	-	261,208
Office and other equipment	48,645	-	-	48,645
Vehicles	<u>8,437</u>	<u>4,400</u>	-	<u>12,837</u>
Total accumulated depreciation	<u>1,845,827</u>	<u>82,487</u>	-	<u>1,928,314</u>
Total Property Improvements and Equipment, Net	<u>\$ 1,433,340</u>	<u>\$ 82,487</u>	<u>\$ -</u>	<u>\$ 1,350,853</u>

Total depreciation expense recorded for the year ended June 30, 2017, was \$82,487.

Property improvements and equipment consist of the following at June 30, 2016:

	Beginning Balance	Increase	Decrease	Ending Balance
Property Improvements and Equipment:				
Property improvement	\$ 2,932,231	\$ -	\$ -	\$ 2,932,231
Furniture, fitness, and pool equipment	272,445	3,846	-	276,291
Office and other equipment	48,645	-	-	48,645
Vehicles	<u>22,000</u>	-	-	<u>22,000</u>
Total property improvements and equipment	<u>3,275,321</u>	<u>3,846</u>	-	<u>3,279,167</u>
Less: Accumulated depreciation				
Property improvement	1,457,214	74,205	-	1,531,419
Furniture, fitness, and pool equipment	253,733	3,593	-	257,326
Office and other equipment	48,645	-	-	48,645
Vehicles	<u>4,037</u>	<u>4,400</u>	-	<u>8,437</u>
Total accumulated depreciation	<u>1,763,629</u>	<u>82,198</u>	-	<u>1,845,827</u>
Total Property Improvements and Equipment, Net	<u>\$ 1,511,692</u>	<u>\$ (78,352)</u>	<u>\$ -</u>	<u>\$ 1,433,340</u>

Total depreciation expense recorded for the year ended June 30, 2016, was \$82,198.

PALOS VERDES BEACH AND ATHLETIC CLUB

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

4. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 30, 2018, and noted that there were no items that require financial statement disclosure.