

Palos Verdes Golf Club

(A California Nonprofit Corporation)

Financial Report

Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Members
Palos Verdes Golf Club
Palos Verdes Estates, California

Report on the Financial Statements

We have audited the accompanying financial statements of Palos Verdes Golf Club (a California nonprofit corporation), which comprise the statement of financial position as of December 31, 2017, the related statements of activities and changes in net assets, 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.

Auditor's 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 auditor's 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 Palos Verdes Golf Club as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Palos Verdes Golf Club's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hutchinson and Bloodgood LLP

May 14, 2018

PALOS VERDES GOLF CLUB
(A California Nonprofit Corporation)

Statements of Financial Position
December 31, 2017 with Comparative Totals for December 31, 2016

	2017			2016
	Operating	Club Improvement Fund	Total	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 803,653	\$ --	\$ 803,653	\$ 1,049,063
Accounts receivable-net of allowance for doubtful accounts of \$12,782 for 2017 and \$15,407 for 2016	834,126	--	834,126	866,155
Water conservation rebate (Note 15)	--	--	--	128,593
Inventories (Note 2)	290,849	--	290,849	296,337
Prepaid expenses and other current assets	137,666	--	137,666	103,354
Total current assets	<u>2,066,294</u>	<u>--</u>	<u>2,066,294</u>	<u>2,443,502</u>
Club facilities and equipment, net (Note 3)	<u>13,522,424</u>	<u>--</u>	<u>13,522,424</u>	<u>13,589,889</u>
Club Improvement Fund				
Cash and cash equivalents	--	1,876,225	1,876,225	1,549,793
Certificates of deposit	--	1,000,000	1,000,000	--
Total Club Improvement Fund (Note 4)	<u>--</u>	<u>2,876,225</u>	<u>2,876,225</u>	<u>1,549,793</u>
Total assets	<u>\$ 15,588,718</u>	<u>\$ 5,752,450</u>	<u>\$ 21,341,168</u>	<u>\$ 19,132,977</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 570,911	\$ --	\$ 570,911	\$ 629,551
Accrued expenses	835,170	--	835,170	854,815
Deferred income	734,381	--	734,381	773,041
Total current liabilities	<u>2,140,462</u>	<u>--</u>	<u>2,140,462</u>	<u>2,257,407</u>
Member deposits (Note 7)	660,000	98,000	758,000	919,000
2004 assessment payable (Note 10)	--	--	--	448,163
Total liabilities	<u>2,800,462</u>	<u>98,000</u>	<u>2,898,462</u>	<u>3,624,570</u>
Commitments and contingencies (Notes 4, 11, 14, and 16)				
Net assets				
Unrestricted net assets	12,788,256	--	12,788,256	12,547,213
Temporarily restricted net assets	--	2,778,225	2,778,225	1,411,401
Total net assets	<u>12,788,256</u>	<u>2,778,225</u>	<u>15,566,481</u>	<u>13,958,614</u>
Total liabilities and net assets	<u>\$ 15,588,718</u>	<u>\$ 2,876,225</u>	<u>\$ 18,464,943</u>	<u>\$ 17,583,184</u>

PALOS VERDES GOLF CLUB
(A California Nonprofit Corporation)

Statements of Activities and Changes in Net Assets
Year Ended December 31, 2017 with Comparative Totals for December 31, 2016

	2017			2016
	Operating	Club Improvement Fund	Total	Total
Revenues				
Membership dues	\$ 4,982,848	\$ --	\$ 4,982,848	\$ 4,699,096
Food and beverage	4,213,869	--	4,213,869	4,227,773
Golf activities	1,761,703	--	1,761,703	1,727,487
Lockers and fitness	148,751	--	148,751	146,557
Other income	23,506	--	23,506	21,370
Total revenues	<u>11,130,677</u>	<u>--</u>	<u>11,130,677</u>	<u>10,822,283</u>
Departmental expenses				
Food and beverage	4,133,706	--	4,133,706	3,867,769
Golf course	2,101,874	--	2,101,874	1,974,492
Golf activities	1,488,954	--	1,488,954	1,414,676
Lockers and fitness	153,539	--	153,539	160,457
General and administrative	1,994,671	--	1,994,671	1,882,392
Clubhouse grounds	340,677	--	340,677	322,033
Repairs and maintenance	456,987	--	456,987	361,480
Total departmental expenses	<u>10,670,408</u>	<u>--</u>	<u>10,670,408</u>	<u>9,983,299</u>
Revenue over expenses before Fund transfers	460,269	--	460,269	838,984
Operating Fund transfers to Club Improvement Fund (CIF)	<u>(610,418)</u>	<u>610,418</u>	<u>--</u>	<u>--</u>
Revenue over expenses before depreciation and CIF activity	<u>(150,149)</u>	<u>610,418</u>	<u>460,269</u>	<u>838,984</u>
Depreciation and Club Improvement Fund Activity				
Depreciation	(955,587)	--	(955,587)	(891,265)
Interest, net	890	--	890	(46,440)
Legal fees	(40,289)	--	(40,289)	(30,027)
Interest income	--	4,026	4,026	2,253
New member initiation fees and non-refundable senior deposits added to CIF	--	2,173,058	2,173,058	1,094,180
Membership incentive	--	(24,500)	(24,500)	(18,400)
Gain on asset disposals	--	--	--	13,712
Refunds paid to members (Note 6)	(10,000)	--	(10,000)	(6,275)
	<u>(1,004,986)</u>	<u>2,152,584</u>	<u>1,147,598</u>	<u>117,738</u>
Increase (decrease) in net assets before net assets released from restrictions	(1,155,135)	2,763,002	1,607,867	956,722
Net assets released from restrictions (Note 4)	1,396,178	(1,396,178)	--	--
Net assets beginning of year	<u>12,547,213</u>	<u>1,411,401</u>	<u>13,958,614</u>	<u>13,001,892</u>
Net assets end of the year	<u>\$ 12,788,256</u>	<u>\$ 2,778,225</u>	<u>\$ 15,566,481</u>	<u>\$ 13,958,614</u>

The accompanying notes are an integral part of these financial statements.

PALOS VERDES GOLF CLUB
(A California Nonprofit Corporation)

Statements of Cash Flows

Year Ended December 31, 2017 with Comparative Totals for December 31, 2016

	2017			2016
	Operating	Club Improvement Fund	Total	Total
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ (1,155,135)	\$ 2,763,002	\$ 1,607,867	\$ 956,722
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities				
Depreciation	955,587	--	955,587	891,265
Refunds paid to members	10,000	--	10,000	6,275
Change in operating assets and liabilities				
Accounts receivable	32,029	--	32,029	(45,136)
Water conservation rebate	--	128,593	128,593	551,540
Inventories	5,488	--	5,488	(20,818)
Prepaid expenses and other assets	(34,312)	--	(34,312)	7,811
Accounts payable	169,336	(227,985)	(58,649)	245,155
Accrued expenses	(19,645)	--	(19,645)	54,146
Initiation fees and member deposits	(220,000)	59,000	(161,000)	(142,000)
Deferred income	(38,660)	--	(38,660)	71,771
Total adjustments	859,823	(40,392)	819,431	1,620,009
Net cash provided by operating activities	(295,312)	2,722,610	2,427,298	2,576,731
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of short-term investments	--	(1,000,000)	(1,000,000)	--
Capital expenditures	(888,113)	--	(888,113)	(1,524,974)
Net cash used by investing activities	(888,113)	(1,000,000)	(1,888,113)	(1,524,974)
CASH FLOW FROM FINANCING ACTIVITIES				
Refunds of 2004 assessment	(448,163)	--	(448,163)	(849,976)
Refunds paid to members	(10,000)	--	(10,000)	(6,275)
Net cash used by financing activities	(458,163)	--	(458,163)	(856,251)
Increase (decrease) in cash and cash equivalents before net assets released from restrictions	(1,641,588)	1,722,610	81,022	195,506
Net assets released from restrictions (Note 4)	1,396,178	(1,396,178)	--	--
Net increase (decrease) in cash and cash equivalents	(245,410)	326,432	81,022	195,506
CASH AND CASH EQUIVALENTS, beginning of year	1,049,063	1,549,793	2,598,856	2,403,350
CASH AND CASH EQUIVALENTS, end of year	\$ 803,653	\$ 1,876,225	\$ 2,679,878	\$ 2,598,856

The accompanying notes are an integral part of these financial statements.

PALOS VERDES GOLF CLUB
(A California Nonprofit Corporation)

Notes to Financial Statements
December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information: Palos Verdes Golf Club (a California nonprofit corporation) (the Club) is a nonprofit social club, located in Palos Verdes Estates, California organized for the use of the members of the Club. The activities of the Club include operation of the golf course and dining and bar facilities.

Financial Statement Presentation: As required by generally accepted accounting principles in the United States of America, the Club reports information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The members' equity is reflected as unrestricted net assets and the Club Improvement Fund is reflected as temporarily restricted net assets. The Club has no permanently restricted net assets.

Operating Income: Operating income pertains to ordinary day-to-day operations and includes revenues from dues, user fees, and sales of food and beverages, less related expenses. This activity is reflected in the Operating Fund. The Club excludes from operating revenues initiation fees and revenues whose use is temporarily restricted by the Concession Agreement with the City of Palos Verdes. This activity is reflected in the Club Improvement Fund.

Cash and Cash Equivalents: The Club considers all highly liquid investments, typically with a maturity of three (3) months or less when purchased, to be cash equivalents.

Inventories: Inventories, consisting of food, beverage, and the golf pro shop, are stated at the lower of cost (first-in, first-out method) or market.

Membership, Membership Dues, Initiation Fees, and Assessments: The Club bills members' dues one (1) month in advance. These billings are included in accounts receivable and deferred income in the financial statements. A portion of the monthly dues is temporarily restricted and contributed to the Club Improvement Fund (Note 4). Initiation fees from regular members are recorded as non-operating revenue when the membership is effective.

All required membership deposits, prior to attaining regular membership status, are applied to the initiation fee for regular membership in effect when the member converts membership status. Junior Executive Members pay one-half of the regular member initiation fee. Junior Executive Members have all the rights and privileges of regular member and are responsible to pay all fees, dues charges, and minimums.

During the year ended December 31, 2017, the Board of Directors passed a resolution, effective November 1, 2017, to modify the obligation to repay certain amounts to outgoing members. Based on the Board resolution amounts due to outgoing or resigning members are refundable as follows:

- Regular and senior members who joined prior to November 1, 2001 will be paid 20% of the initiation fee initially paid by the member when they resign from the Club.
- Those regular members who joined after November 1, 2001 and who were informed at the time of entry that the Club would refund \$10,000 of the initial membership fee will receive such amount when they leave the Club.
- Regular members joining after November 1, 2017 were not, and will not be, offered the \$10,000 refund payment and will therefore not be entitled to any payment when they leave the Club.

The portion of any senior member or inactive member incentive fees or deposits, that is refundable, is recorded as a liability. That portion of any amounts due to active regular members is included in net assets in the accompanying financial statements and will be recorded as a liability at the time they resign their regular membership in accordance with the terms of the by-laws.

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Notes to Financial Statements
December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Membership, Membership Dues, Initiation Fees, and Assessments (continued): Under the terms of the Concession Agreement (Note 4), non-residential property owner Regular members may not exceed twenty percent (20%) of the maximum allowable number of Regular members. During the year ended December 31, 2014, an amendment to the Concession Agreement added a provision that (i) if at any time the Club is not at its authorized maximum Regular Membership and has achieved the 20% limitation, an additional five percent (5%) of non-residential property owners may become eligible for Regular Membership upon certain conditions and (ii) if at any time the Club is not at its authorized maximum Regular Membership and has achieved the 25% limitation, an additional five percent (5%) of non-residential property owners may become eligible for Regular Membership upon certain conditions. Applicants for Regular membership who are owners of residential property in Palos Verdes Estates and who fulfill all other requirements of membership have absolute priority to membership over non-residential property owners.

Club Facilities and Equipment: The City of Palos Verdes Estates (PVE) owns the real and personal property used by the Club. The Club uses the facilities under the terms of a Concession Agreement for the golf course and the Club's facilities. As of December 31, 2017, the Club's Concession Agreement with PVE is effective through December 31, 2024. As of December 31, 2017, the Agreement includes an option for four (4) successive five-year options.

The Club capitalizes and depreciates additions or improvements to the golf course and the clubhouse, acquired under the terms of the Concession Agreement. Major capital equipment purchases, as defined in the Concession Agreement, are permitted from the Club Improvement Fund.

Capitalized Club facilities and equipment are recorded at cost. Interest is capitalized in connection with major projects and is amortized over the asset's estimated useful life. Maintenance and repairs are expensed when incurred. Renewals and replacements, which extend the useful life of facilities and equipment, are capitalized.

Depreciation and amortization are provided on the straight-line method over the following estimated useful lives of the related assets or the remaining term of the Concession Agreement with PVE:

Golf carts	3 years
Equipment and furnishings	5-15 years
Golf course and land improvements	10-30 years
Building improvements	10-39 years

Capitalized Club facilities and equipment are reviewed for impairment when an event or change in circumstances indicates the carrying amount of an asset or group of assets may not be recoverable. An impairment review includes comparison of future cash flows expected to be generated by the asset or group of assets with the associated asset's carrying value. If the carrying value of the asset or group of assets exceeds the expected future cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent that the carrying amount of the asset exceeds its fair value. No impairment loss was recognized in 2017 or 2016.

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Notes to Financial Statements
December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 future results could differ from these estimates.

Recent Accounting Pronouncement: In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Club is assessing the impact this ASU will have on its financial statements.

Subsequent Events: The Club has evaluated all subsequent events through May 14, 2018 which is the date the financial statements are available to be issued and has determined that no events or transactions require recognition or disclosure in these financial statements.

NOTE 2. INVENTORIES

Inventories consist of the following at December 31:

	2017	2016
Pro shop merchandise	\$ 166,786	\$ 190,756
Food	25,470	22,537
Beverage	92,717	77,222
Snack bar	<u>5,876</u>	<u>5,822</u>
	<u>\$ 290,849</u>	<u>\$ 296,337</u>

NOTE 3. CLUB FACILITIES AND EQUIPMENT

At December 31, Club facilities and equipment consist of the following:

	2017	2016
Building improvements	\$ 12,880,245	\$ 12,688,459
Land improvements	5,408,509	5,133,240
Equipment and furnishings	2,543,422	2,256,476
Golf carts	<u>378,696</u>	<u>244,575</u>
	21,210,872	20,322,750
Less accumulated depreciation	<u>7,688,448</u>	<u>6,732,861</u>
	<u>\$ 13,522,424</u>	<u>\$ 13,589,889</u>

During the year ended December 31, 2016, the Club wrote off fully depreciated assets with an original cost of \$256,426. The Club did not dispose of any assets during the year ended December 31, 2017.

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Notes to Financial Statements
December 31, 2017 and 2016

NOTE 4. CONCESSION AGREEMENT

The Club manages and uses its facilities under a Concession Agreement (Agreement) with PVE. The Agreement expires December 31, 2024 and, as amended, provides for four (4) successive five-year options upon proper notification to PVE. The Agreement requires that the Club pay ten percent (10%) of its gross receipts, as defined by the Agreement, to PVE as a fee (the City Fee). For the years ended December 31, 2017 and 2016, the City Fee was \$1,061,450 and \$1,028,236, respectively. The City Fee is reflected as an expense in the various operating departments in the Statement of Activities and Changes in Net Assets.

The Agreement also requires the maintenance of a Club Improvement Fund. The Club Improvement Fund is used for capital improvements and to refund certain assessments to members (Notes 6 and 10). The Agreement requires that all member initiation fees, ten percent (10%) of member dues and ten percent (10%) of gross receipts, as defined, be contributed to the Club Improvement Fund. The Agreement, as amended, requires that at any time the total net assets in the Club's Operating Fund, as defined, exceed ten percent (10%) of the then current Annual Operating Budget, the Club shall deposit into the Club Improvement Fund the net surplus (only) from all operations.

The Agreement defines "gross receipts," generally, as all money received by the Club from operation of the clubhouse and golf course.

Excluded from "gross receipts" are (as more fully described in the Agreement):

- membership initiation fees or assessments;
- sales taxes collected from customers
- credits and refunds,
- workers' compensation premium refunds;
- sale of golf merchandise
- proceeds from golf lessons
- club storage fees; and
- service charges or gratuities from food or beverage sales paid to employees. The exempted portion on private party sales shall not exceed eighteen percent (18%).

The Agreement was restated on September 13, 2016 to clarify the definition of service charges. The Club has historically and consistently accounted for the Club service charge as a gratuity as defined in the Concession Agreement. The service charge is used by the Club to supplement and pay employee wages and employee benefits. The Club reports and pays the City on service charges in excess of 18%.

The Club Improvement Fund reverts to PVE upon the termination of the Concession Agreement.

The Agreement was amended September 8, 2015 to allow a referral credit of \$1,000, reducing the initiation fee that is contributed to the Club Improvement Fund to any current regular member for referring a new regular member.

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Notes to Financial Statements
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NOTE 4. CONCESSION AGREEMENT (Continued)

For the years ended December 31, 2017 and 2016, activity in the Club Improvement Fund was as follows:

	2017	2016
Beginning balance	<u>\$ 1,549,793</u>	<u>\$ 1,878,273</u>
Additions		
Contribution from operations	610,418	581,062
Interest income	4,026	2,253
Initiation fees and non-refundable senior deposits, net of incentive fees	2,148,558	1,075,780
Rebate – water conservation	--	593,950
Membership deposits	<u>59,000</u>	<u>(79,000)</u>
Total additions	<u>2,822,002</u>	<u>2,174,045</u>
Deductions		
Capital expenditures, including water conservation	987,505	1,557,807
Interest paid – 2004 assessment	9,613	58,440
Refunds of 2004 assessment	448,163	849,976
Legal fees	40,289	30,027
Refunds paid to resigning members	<u>10,000</u>	<u>6,275</u>
Total deductions	<u>1,495,570</u>	<u>2,502,525</u>
Ending balance	<u>\$ 2,876,225</u>	<u>\$ 1,549,793</u>

The Club Improvement Fund is maintained as follows as of December 31:

	2017	2016
Non-interest bearing deposit accounts	\$ 1,876,225	\$ 1,549,793
Certificates of deposit	<u>1,000,000</u>	<u>--</u>
	<u>\$ 2,876,225</u>	<u>\$ 1,549,793</u>

For the years ended December 31, 2017 and 2016, net transfers from the Club Improvement Fund to Operations were as follows:

	2017	2016
Capital expenditures, excluding water conservation	\$ 888,113	\$ 1,524,974
Proceeds from sale of equipment	--	(13,712)
Interest paid – 2004 assessment	9,613	58,440
Refunds of 2004 assessment	448,163	849,976
Refunds paid to resigning members	10,000	6,275
Legal fees	<u>40,289</u>	<u>30,027</u>
	<u>\$ 1,396,178</u>	<u>\$ 2,455,980</u>

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Notes to Financial Statements
December 31, 2017 and 2016

NOTE 5. EMPLOYEE RETIREMENT PLAN

The Club sponsors a 401(k) plan and a discretionary profit sharing contribution as approved by the Board of Directors. The Club matches 50% of employee salary deferrals up to 5% of salary. The maximum Club's contribution per year for each participant is \$1,000. For the years ended December 31, 2017 and 2016, the expense related to the matching was \$28,709 and \$25,511, respectively.

NOTE 6. REFUNDABLE CAPITAL CONTRIBUTIONS AND ASSESSMENTS

Refundable capital contributions represent amounts paid by regular members who joined the Club prior to January 1, 1983 and after the amendment of the Concession Agreement (Note 4).

During the year ended December 31, 1987, the Club financed a renovation of its facilities by assessing its regular membership. The assessment will be repaid to the member upon termination of their membership and is contingent upon the admission of another regular member. The refundable capital and assessments are required to be paid from the Club Improvement Fund.

Refundable capital contributions and assessments are as follows:

	Capital Contributions	Assessments	Total
Balance, December 31, 2015	\$ 10,600	\$ 131,500	\$ 142,100
Refunds – 2016	<u> --</u>	<u> (6,275)</u>	<u> (6,275)</u>
Balance, December 31, 2016	10,600	125,225	135,825
Refunds – 2017	<u> --</u>	<u> (10,000)</u>	<u> (10,000)</u>
Balance, December 31, 2017	<u>\$ 10,600</u>	<u>\$ 115,225</u>	<u>\$ 125,825</u>

NOTE 7. MEMBER DEPOSITS

As of December 31, member deposits consist of:

Description	2017	2016
Senior/Inactive members	\$ 230,000	\$ 480,000
Expanded membership	400,000	400,000
Wait list applicants	30,000	--
Deferred initiation fees	<u>98,000</u>	<u>39,000</u>
	<u>\$ 758,000</u>	<u>\$ 919,000</u>

The member deposits related to the expanded membership represent the refundable amount, of \$10,000, for each of the 40 additional regular memberships. The \$400,000 is recorded as a deposit in the operating fund and the funds are used for operations.

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Notes to Financial Statements
December 31, 2017 and 2016

NOTE 8. INCOME TAXES

The Club has been granted exemption from Federal and California taxes on income as a nonprofit corporation under Internal Revenue Service Code Section 501(c)(7) and Section 23701g of the California Revenue and Taxation Code. However, the Tax Reform Act of 1969 provides for the assessment of taxes on what is termed unrelated business income. This is generally defined to represent such forms of unrelated income as investment income and rental income. As a tax exempt social club, the Club is limited in the amount of revenue that can be generated from nonmember sources. The Club has been audited in the past and the issue of nonmember revenue and the Club's requirement to open the facilities to the public based on the Concession Agreement (Note 4), was noted by the Internal Revenue Service (IRS). Income tax on unrelated business income is provided for in general and administrative expenses in the accompanying financial statements.

The Club recognizes tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by tax authorities. The Club believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that would require recognition or disclosure as of December 31, 2017 and 2016. As of December 31, 2017, the Club's annual tax filings for the prior three and four years are open for audit by Federal and state tax agencies, respectively.

NOTE 9. CONCENTRATIONS OF RISK

The Club's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and member receivables.

The Club has cash deposits in local domestic bank accounts. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each U.S. institution. Effective January 1, 2013, all interest and non-interest bearing accounts are FDIC insured up to \$250,000 per institution. Periodically, the Club may maintain balances in excess of insured amounts for interest bearing deposit accounts. The Club has not experienced any losses on any deposits. The Club monitors the financial stability and credit worthiness of the financial institutions.

The Club extends credit to members related to their use of club facilities and services and monitors the Club's credit exposure on a continuing basis. In addition, the Club maintains an aggressive collection policy and will write-off an account at the time collectability is doubtful.

NOTE 10. 2004 REFUNDABLE ASSESSMENT AND CLUBHOUSE RENOVATION PROJECT

During fiscal 2004, the Club membership authorized the renovation of the clubhouse. The project was financed through an assessment of regular members (2004 refundable assessment). The 2004 refundable assessment was \$18,000 per regular member. Interest, payable to the member, accrued at the rate of 6% per annum beginning April 1, 2005. During the year ended December 31, 2017, the Club paid the obligation in full.

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NOTE 11. CONTINGENCIES

Periodically, the Club is involved in litigation in the normal course of business. As of December 31, 2017, the Club was not a party to litigation that would be expected to have a material adverse effect on the Club's financial condition.

NOTE 12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Club periodically enters into transactions with members, or companies with which members are affiliated. Management believes the terms of such transactions are comparable to that which could be obtained with unrelated parties. During the years ended December 31, 2017 and 2016, the amounts of such transactions totaled approximately \$170,000 and \$161,000, respectively.

NOTE 13. CASH FLOW STATEMENTS - SUPPLEMENT DISCLOSURE

Cash paid for interest for the years ended December 31, 2017 and 2016 was \$9,613 and \$58,440, respectively.

NOTE 14. WORKERS' COMPENSATION

The Club was previously a member of a self-insured pool for workers' compensation insurance wherein the Club shared risk with other members. The pool was established under California law to enable its members to self-insure workers' compensation liability exposure. Members of the pool are jointly and severally liable for the expenses and obligations of the program and for the workers' compensation liability for all members. As of and for the year ended December 31, 2017 and 2016, the Club was no longer a member of the self-insured, pool and was insured under a fully-insured (traditional) plan. As of December 31, 2016, the Club received notice of an assessment from the self-insured pool for the premium years when the Club was a member and the Club elected to accrue the assessment in full as a general and administrative expense. The assessment totaled approximately \$133,000. The assessment is payable over a 48-month period.

NOTE 15. WATER CONSERVATION PROJECTS AND REIMBURSEMENT

During the year ended December 31, 2015, the Turf Reduction Project was undertaken with the Metropolitan Water District (MWD) with the goal of reducing the Club's long-term water usage on the golf course. The program allowed for a rebate, from the MWD, of up to a \$2.00 per square foot of turf reduction. During the year ended December 31, 2016, the Club received reimbursement in the amount of \$680,133.

During the year ended December 31, 2016, the Club applied for a rebate from the California Water Service Company in the amount of \$128,593 in connection with the purchase and installation of water-efficient sprinklers and additional turf reduction on the golf course. During the year ended December 31, 2017, the Club received reimbursement for the full amount.

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NOTE 16. OPERATING LEASE COMMITMENT

In October 2016, the Club extended a lease agreement for global positioning system (GPS) equipment. The lease is classified as an operating lease and, as extended, is set to expire in September 2020. Rent expense for the lease totaled approximately \$38,000 and \$36,000 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments for the operating leases are as follows:

Year Ending December 31,	Amount
2018	\$ 38,184
2019	38,184
2020	<u>28,638</u>
Total minimum lease payments	<u>\$ 105,006</u>