

Palos Verdes Golf Club

(A California Nonprofit Corporation)

Financial Report

Years Ended December 31, 2018 and 2017

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hutchinson and Bloodgood LLP

May 30, 2019

PALOS VERDES GOLF CLUB
(A California Nonprofit Corporation)

Statements of Financial Position
December 31, 2018 with Comparative Totals for December 31, 2017

	2018			2017
	Operating	Club Improvement Fund	Total	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 299,184	\$ --	\$ 299,184	\$ 803,653
Accounts receivable-net of allowance for doubtful accounts of \$12,782 for 2018 and \$12,782 for 2017	365,179	--	365,179	349,990
Inventories (Note 2)	325,345	--	325,345	290,849
Prepaid expenses and other current assets	98,041	--	98,041	137,666
Total current assets	<u>1,087,749</u>	<u>--</u>	<u>1,087,749</u>	<u>1,582,158</u>
Club facilities and equipment, net (Note 3)	<u>13,175,604</u>	<u>--</u>	<u>13,175,604</u>	<u>13,522,424</u>
Club Improvement Fund				
Cash and cash equivalents	--	2,369,941	2,369,941	1,876,225
Certificates of deposit	--	2,002,720	2,002,720	1,000,000
Total Club Improvement Fund (Note 4)	<u>--</u>	<u>4,372,661</u>	<u>4,372,661</u>	<u>2,876,225</u>
Total assets	<u>\$ 14,263,353</u>	<u>\$ 4,372,661</u>	<u>\$ 18,636,014</u>	<u>\$ 17,980,807</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 470,631	\$ --	\$ 470,631	\$ 570,911
Accrued expenses	763,421	--	763,421	835,170
Banquet and other deposits	165,724	--	165,724	250,245
Deferred initiation fees	--	56,500	56,500	98,000
Total current liabilities	<u>1,399,776</u>	<u>56,500</u>	<u>1,456,276</u>	<u>1,754,326</u>
Interfund payable (receivable)	630,000	(630,000)	--	--
Member deposits (Note 7)	<u>--</u>	<u>39,900</u>	<u>39,900</u>	<u>660,000</u>
Total liabilities	<u>2,029,776</u>	<u>(533,600)</u>	<u>1,496,176</u>	<u>2,414,326</u>
Commitments and contingencies (Notes 4, 11, 14, and 16)				
Net assets				
Unrestricted net assets	12,233,577	--	12,233,577	12,788,256
Net assets with restrictions	<u>--</u>	<u>4,906,261</u>	<u>4,906,261</u>	<u>2,778,225</u>
Total net assets	<u>12,233,577</u>	<u>4,906,261</u>	<u>17,139,838</u>	<u>15,566,481</u>
Total liabilities and net assets	<u>\$ 14,263,353</u>	<u>\$ 4,372,661</u>	<u>\$ 18,636,014</u>	<u>\$ 17,980,807</u>

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

PALOS VERDES GOLF CLUB
(A California Nonprofit Corporation)

Statements of Activities and Changes in Net Assets
Year Ended December 31, 2018 with Comparative Totals for December 31, 2017

	2018			2017
	Operating	Club Improvement Fund	Total	Total
Revenues				
Membership dues	\$ 5,659,928	\$ --	\$ 5,659,928	\$ 4,982,848
Food and beverage	3,700,176	--	3,700,176	4,213,869
Golf activities	1,751,145	--	1,751,145	1,761,703
Lockers and fitness	150,827	--	150,827	148,751
Other income	21,260	--	21,260	23,506
Total revenues	<u>11,283,336</u>	<u>--</u>	<u>11,283,336</u>	<u>11,130,677</u>
Departmental expenses				
Food and beverage	4,351,788	--	4,351,788	4,133,706
Golf course	2,179,095	--	2,179,095	2,101,874
Golf activities	1,535,632	--	1,535,632	1,488,954
Lockers and fitness	162,385	--	162,385	153,539
General and administrative	1,992,629	--	1,992,629	1,994,671
Clubhouse grounds	243,083	--	243,083	340,677
Repairs and maintenance	360,065	--	360,065	456,987
Total departmental expenses	<u>10,824,677</u>	<u>--</u>	<u>10,824,677</u>	<u>10,670,408</u>
Revenue over expenses before Fund transfers	458,659	--	458,659	460,269
Operating Fund transfers to Club Improvement Fund (CIF)	<u>(670,810)</u>	<u>670,810</u>	<u>--</u>	<u>--</u>
(Expenses over revenue) revenue over expenses before depreciation, interest, and CIF activity	<u>(212,151)</u>	<u>670,810</u>	<u>458,659</u>	<u>460,269</u>
Depreciation, interest, and Club Improvement Fund Activity				
Depreciation	(992,338)	--	(992,338)	(955,587)
Interest, net	--	--	--	890
Legal fees	--	--	--	(40,289)
Interest income	4,292	1,869	6,161	4,026
New member initiation fees and non-refundable member deposits	--	2,167,775	2,167,775	2,173,058
Membership incentive	--	(10,000)	(10,000)	(24,500)
Refunds paid to outgoing members, net	--	(56,900)	(56,900)	(10,000)
	<u>(988,046)</u>	<u>2,102,744</u>	<u>1,114,698</u>	<u>1,147,598</u>
Change in net assets before net assets released from restrictions	(1,200,197)	2,773,554	1,573,357	1,607,867
Net assets released from restrictions (Note 4)	645,518	(645,518)	--	--
Net assets beginning of year	<u>12,788,256</u>	<u>2,778,225</u>	<u>15,566,481</u>	<u>13,958,614</u>
Net assets end of the year	<u>\$ 12,233,577</u>	<u>\$ 4,906,261</u>	<u>\$ 17,139,838</u>	<u>\$ 15,566,481</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, 2018 with Comparative Totals for December 31, 2017

	2018			2017
	Operating	Club Improvement Fund	Total	Total
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ (1,200,197)	\$ 2,773,554	\$ 1,573,357	\$ 1,607,867
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities				
Depreciation	992,338	--	992,338	955,587
Refunds paid to members	--	--	--	10,000
Initiation Fees	--	(2,167,775)	(2,167,775)	(2,173,058)
Change in operating assets and liabilities				
Accounts receivable	(15,189)	--	(15,189)	87,622
Water conservation rebate	--	--	--	128,593
Inventories	(34,496)	--	(34,496)	5,488
Prepaid expenses and other assets	39,625	--	39,625	(34,312)
Accounts payable	(100,280)	--	(100,280)	(58,649)
Accrued expenses	(71,749)	--	(71,749)	(19,645)
Member deposits	(30,000)	--	(30,000)	(220,000)
Deferred initiation fees	--	(41,500)	(41,500)	59,000
Banquet and other deposits	(84,521)	--	(84,521)	(94,253)
Total adjustments	695,728	(2,209,275)	(1,513,547)	(1,353,627)
Net cash provided (used) by operating activities	(504,469)	564,279	59,810	254,240
CASH FLOW FROM INVESTING ACTIVITIES				
Increase in certificates of deposit	--	(1,002,720)	(1,002,720)	(1,000,000)
Capital expenditures	(645,518)	--	(645,518)	(888,113)
Net cash used by investing activities	(645,518)	(1,002,720)	(1,648,238)	(1,888,113)
CASH FLOW FROM FINANCING ACTIVITIES				
Refunds of 2004 assessment	--	--	--	(448,163)
Proceeds from initiation fees	--	1,577,675	1,577,675	2,173,058
Refunds paid to members	--	--	--	(10,000)
Net cash provided by financing activities	--	1,577,675	1,577,675	1,714,895
Increase (decrease) in cash and cash equivalents before net assets released from restrictions and reclassifications	(1,149,987)	1,139,234	(10,753)	81,022
Net assets released from restrictions (Note 4)	645,518	(645,518)	--	--
Net increase (decrease) in cash and cash equivalents	(504,469)	493,716	(10,753)	81,022
CASH AND CASH EQUIVALENTS, beginning of year	803,653	1,876,225	2,679,878	2,598,856
CASH AND CASH EQUIVALENTS, end of year	\$ 299,184	\$ 2,369,941	\$ 2,669,125	\$ 2,679,878

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, 2018 and 2017

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: On August 18, 2016, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, with the goal of improving not-for-profit entity (NFP) financial statements to provide more useful information to donors, grantors, creditors, and other financial statement users. The ASU changes how NFPs present net assets, based on donor restrictions, on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. This guidance is effective for annual financial statements for fiscal years beginning after December 15, 2017. During the year ended December 31, 2018, the Club adopted and implemented this guidance for 2018 and retrospectively for 2017.

The Club reflects members' equity as net assets without donor restrictions and the Club Improvement Fund (CIF) is reflected as net assets with restrictions.

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 CIF.

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 net realizable value.

Membership, Membership Dues, Initiation Fees, and Assessments: A portion of monthly membership dues is considered restricted and contributed to the CIF (Note 4). Initiation fees from regular and junior members are recorded as non-operating revenue when the membership is effective. Deferred initiation fees represent amounts paid by an incoming member prior to the effective date of their membership. Regular members are given the option to finance their membership fees when they join the Club. Regular membership fees require a down payment and the balance of the membership fees are financed in installments. Based on the terms of the agreement the Club recognizes the initiation fee when billed.

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

- Regular members joining before November 1, 2001 will receive a departure incentive equal to 20% of their initiation fee not to exceed \$10,000
- Regular members joining since November 1, 2001 and any new Regular member submitting an application on or before November 30, 2017 will receive a \$10,000 departure incentive
- All new Regular members making application after November 30, 2017 will not receive a departure incentive.

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Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Membership, Membership Dues, Initiation Fees, and Assessments (continued): Based on the 2017 Board Resolution, senior member incentive fees or deposits that are refundable are recorded as a liability. Amounts due to active regular members are included in net assets in the accompanying financial statements and will be paid out and reported as a deduction from the Club Improvement Fund at the time they resign their regular membership in accordance with the terms of the by-laws.

Under the terms of the December 2018 Concession Agreement (Note 4), non-residential property owner Regular members may not exceed thirty percent (30%) (previously 20%) of the maximum allowable number of Regular members. The Concession Agreement includes a provision that (i) if at any time the Club is not at its authorized maximum Regular Membership and has achieved the 30% 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 (PVE) 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 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, 2018, the Club's Concession Agreement with PVE is effective through December 31, 2038. As of December 31, 2018, the Agreement includes an option for two (2) successive ten-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 CIF.

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 2018 or 2017.

PALOS VERDES GOLF CLUB
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Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expanded membership: As of December 31, 2018, the interfund receivable and payable includes the \$400,000 related to the expansion of the membership and the sale of 40 additional regular memberships. The funds were used for operations.

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.

Reclassifications: Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the increase in total net assets for the year ended December 31, 2017.

Subsequent Events: The Club has evaluated all subsequent events through May 30, 2019 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:

	2018	2017
Pro shop merchandise	\$ 198,024	\$ 166,786
Food	23,909	25,470
Beverage	96,518	92,717
Snack bar	<u>6,894</u>	<u>5,876</u>
	<u>\$ 325,345</u>	<u>\$ 290,849</u>

NOTE 3. CLUB FACILITIES AND EQUIPMENT

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

	2018	2017
Building improvements	\$ 12,947,887	\$ 12,880,245
Land improvements	5,515,806	5,408,509
Equipment and furnishings	2,622,128	2,543,422
Golf carts	<u>378,696</u>	<u>378,696</u>
	21,464,517	21,210,872
Less accumulated depreciation	<u>8,472,504</u>	<u>7,688,448</u>
	12,992,013	13,522,424
Construction in progress	<u>183,591</u>	--
Property and equipment - net	<u>\$ 13,175,604</u>	<u>\$ 13,522,424</u>

During the year ended December 31, 2018, the Club wrote off fully depreciated assets with an original cost of approximately \$208,000. The Club did not dispose of any assets during the year ended December 31, 2017. As of December 31, 2018, construction in progress includes costs incurred in connection with the West End Renovation.

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Notes to Financial Statements
December 31, 2018 and 2017

NOTE 4. CONCESSION AGREEMENT

The Club manages and uses its facilities under a Concession Agreement (Agreement) with 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, 2018 and 2017, the City Fee was \$1,073,971 and \$1,061,450, 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 CIF. The CIF 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 CIF. 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 CIF 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
- 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%)

In 2016, the Agreement was restated 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 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 CIF reverts to PVE upon the termination of the Agreement.

The Agreement allows referral credits of \$1,000, reducing the initiation fee that is contributed to the CIF to any current regular member referring a new regular member.

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Notes to Financial Statements
December 31, 2018 and 2017

NOTE 4. CONCESSION AGREEMENT (Continued)

For the years ended December 31, 2018 and 2017, activity in the CIF was as follows:

	2018	2017
Beginning balance	\$ <u>2,876,225</u>	\$ <u>1,549,793</u>
Additions		
Contribution from operations	670,810	610,418
Interest income	1,869	4,026
Initiation fees and non-refundable senior deposits, net of referral credits	1,567,675	2,148,558
Deferred initiation fees - increase	<u> --</u>	<u>59,000</u>
Total additions	<u>2,240,354</u>	<u>2,822,002</u>
Deductions		
Capital expenditures, including water conservation	645,518	987,505
Deferred initiation fees - decrease	41,500	--
Interest paid – 2004 assessment	--	9,613
Refunds of 2004 assessment	--	448,163
Legal fees	--	40,289
Refunds paid to resigning members	<u>56,900</u>	<u>10,000</u>
Total deductions	<u>743,918</u>	<u>1,495,570</u>
Ending balance	<u>\$ 4,372,661</u>	<u>\$ 2,876,225</u>

The CIF is maintained as follows as of December 31:

	2018	2017
Non-interest bearing deposit accounts	\$ 2,369,941	\$ 1,876,225
Certificates of deposit	<u>2,002,720</u>	<u>1,000,000</u>
	<u>\$ 4,372,661</u>	<u>\$ 2,876,225</u>

For the years ended December 31, 2018 and 2017, net transfers from the CIF to Operations were as follows:

	2018	2017
Capital expenditures, excluding water conservation	\$ 645,518	\$ 888,113
Interest paid – 2004 assessment	--	9,613
Refunds of 2004 assessment	--	448,163
Refunds paid to resigning members	--	10,000
Legal fees	<u> --</u>	<u>40,289</u>
	<u>\$ 645,518</u>	<u>\$ 1,396,178</u>

PALOS VERDES GOLF CLUB
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Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017, the expense related to the matching was \$34,269 and \$28,709, 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 CIF.

Refundable capital contributions and assessments are as follows:

	Capital Contributions	Assessments	Total
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	10,600	115,225	125,825
Refunds – 2018	<u> --</u>	<u> --</u>	<u> --</u>
Balance, December 31, 2018	<u>\$ 10,600</u>	<u>\$ 115,225</u>	<u>\$ 125,825</u>

NOTE 7. MEMBER DEPOSITS

As of December 31, 2018 and 2017, the liability for member deposits represents the refundable portion of senior member incentive fees or deposits, based on the 2017 Board Resolution. Amounts paid subsequent to December 31, 2017, to outgoing regular or senior members, are paid directly from the Club Improvement Fund and are recognized as deductions from the CIF at the time of payment.

PALOS VERDES GOLF CLUB
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Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017. As of December 31, 2018, 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.

During the year ended December 31, 2017 the Club adopted a policy to invest in the Certificates of Deposit Account Registry Services (CDARS) program. CDARS is a deposit placement program that allows the Club to place a large deposit with a CDARS Network member (a financial institution) to invest funds into certificates of deposit issued by other members of the CDARS Network. Funds invested at each member financial institution do not exceed \$250,000. This provides the Club with a vehicle to invest larger sums of cash without exceeding dollar amounts insured by the FDIC. Even though risk of loss may be minimized through the CDARS program, the Club may periodically maintain balances in excess of insured amounts. The Club has not experienced any losses on deposits and monitors the financial condition of its financial institutions.

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, 2018, 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, 2018 and 2017, the amounts of such transactions totaled approximately \$120,000 and \$170,000, respectively.

NOTE 13. CASH FLOW STATEMENTS - SUPPLEMENT DISCLOSURE

Cash paid for interest for the years ended December 31, 2018 and 2017 was \$0 and \$9,613, 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, 2018 and 2017, the Club was no longer a member of the self-insured, pool and was insured under a fully-insured (traditional) plan. In 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. As of December 31, 2018 and 2017, the remaining balance due was \$66,193 and \$101,508, respectively. The assessment is payable over a 48-month period.

NOTE 15. WATER CONSERVATION REBATE

During the years ended December 31, 2015 (Project 1) and 2016 (Project 2), the Club applied for rebates from the California Water Service Company in the total amount of approximately \$809,000. During the years ended December 31, 2017 and 2016, the Club received approximately \$129,000 (Project 2) and \$680,000 (Project 1), respectively. Project 1 related to turf reduction efforts on the golf course. Project 2 rebates were in connection with the purchase and installation of water-efficient sprinklers and additional turf reduction on the golf course.

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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 \$38,000 for the years ended December 31, 2018 and 2017, respectively.

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

Year Ending December 31,	Amount
2019	\$ 38,184
2020	<u>28,638</u>
Total minimum lease payments	<u>\$ 66,822</u>

NOTE 17. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Club's financial assets as of the December 31, 2018 and 2017. The Club also maintains an available line of credit for \$250,000 (Note 19).

	2018	2017
Cash and cash equivalents - all funds	\$ 2,669,125	\$ 2,679,878
Certificates of deposit	2,002,720	1,000,000
Member and other receivables, net	<u>365,179</u>	<u>349,990</u>
Financial assets at year-end	5,037,024	4,029,868
Less CIF funds, primarily intended for capital expenditures and other expenses as provided by the Concession agreement	<u>4,372,661</u>	<u>2,876,225</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 607,463</u>	<u>\$ 1,153,643</u>

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NOTE 18. EXPENSES BY NATURE AND FUNCTION

The Club's primary program activities are golf and food and beverage. Expenses reported as supporting activities are incurred in support of these primary program activities. Supporting activity expenses are paid for with membership dues and therefore allocation to club programs is not considered necessary. Operating expenses incurred for the following Club programs and support services were as follows:

Year Ended December 31, 2018

	Club Programs			Support Services		Total
	Cost of sales	Payroll and related	Operating	Payroll and related	Other	
Food and beverage	\$ 1,297,048	\$ 1,914,373	\$ 1,140,367	\$ --	\$ --	\$ 4,351,788
Golf course	--	1,277,201	901,894	--	--	2,179,095
Golf activities	504,383	795,918	235,331	--	--	1,535,632
Lockers and fitness	--	118,310	44,075	--	--	162,385
General and administrative	--	--	--	826,875	1,165,754	1,992,629
Clubhouse operations	--	33,651	209,432	--	--	243,083
Facilities maintenance	--	<u>194,566</u>	<u>165,499</u>	--	--	<u>360,065</u>
Totals	<u>\$ 1,801,431</u>	<u>\$ 4,334,019</u>	<u>\$ 2,696,598</u>	<u>\$ 826,875</u>	<u>\$ 1,165,754</u>	<u>\$ 10,824,677</u>

Year Ended December 31, 2017

	Club Programs			Support Services		Total
	Cost of sales	Payroll and related	Operating	Payroll and related	Other	
Food and beverage	\$ 1,335,908	\$ 1,684,795	\$ 1,113,003	\$ --	\$ --	\$ 4,133,706
Golf course	--	1,154,307	947,567	--	--	2,101,874
Golf activities	473,943	763,882	251,129	--	--	1,488,954
Lockers and fitness	--	119,030	34,509	--	--	153,539
General and administrative	--	--	--	864,013	1,130,658	1,994,671
Clubhouse operations	--	138,230	202,447	--	--	340,677
Facilities maintenance	--	<u>229,237</u>	<u>227,750</u>	--	--	<u>456,987</u>
Totals	<u>\$ 1,809,851</u>	<u>\$ 4,089,481</u>	<u>\$ 2,776,405</u>	<u>\$ 864,013</u>	<u>\$ 1,130,658</u>	<u>\$ 10,670,408</u>

NOTE 19. LINE OF CREDIT

The Club maintains a line of credit with its financial institution. The line of credit allows for borrowings of \$250,000. Borrowings accrue interest at a variable interest rate (6.50% as of December 31, 2018). During the year ended December 31, 2018, the line of credit was renewed to mature in September 2019 with any outstanding amounts due at maturity. As of December 31, 2018 and 2017, there were no borrowings on the line of credit.