

Palos Verdes Golf Club

Financial Report

Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Palos Verdes Golf Club (the Club), a California nonprofit corporation, which comprise the statement of financial position as of December 31, 2021, and 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.

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, 2021, and the results of its activities, changes in 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 (GAAS). 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 Club and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit 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 Club's ability to continue as a going concern within one year after the date that the financial statements are 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 therefore is not a guarantee that an audit conducted in accordance with GAAS 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 fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 audit 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 Club'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 Club'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 internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Club's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Hatcher and Bloodgood LLP". The signature is written in black ink and is positioned above the typed name and date.

Glendale, California
September 30, 2022

PALOS VERDES GOLF CLUB

Statements of Financial Position

December 31, 2021 with Comparative Totals for December 31, 2020

	2021			2020
	Operating	Club Improvement Fund	Total	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,891,088	\$ --	\$ 2,891,088	\$ 1,460,787
Accounts receivable-net of allowance for doubtful accounts of \$35,191 for 2021 and \$11,941 for 2020	570,761	--	570,761	393,835
Other receivable (Note 10)	849,162	--	849,162	--
Inventories (Note 2)	377,956	--	377,956	371,278
Prepaid expenses and other current assets	179,871	--	179,871	121,701
Total current assets	<u>4,868,838</u>	<u>--</u>	<u>4,868,838</u>	<u>2,347,601</u>
Club facilities and equipment, net (Note 3)	<u>15,594,775</u>	<u>--</u>	<u>15,594,775</u>	<u>13,526,218</u>
Club Improvement Fund (CIF)				
Cash and cash equivalents	--	4,527,431	4,527,431	5,451,322
Total Club Improvement Fund (Note 4)	<u>--</u>	<u>4,527,431</u>	<u>4,527,431</u>	<u>5,451,322</u>
Total assets	<u>\$ 20,463,613</u>	<u>\$ 4,527,431</u>	<u>\$ 24,991,044</u>	<u>\$ 21,325,141</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 755,496	\$ 97,733	\$ 853,229	\$ 292,921
Accounts payable - construction	139,393	--	139,393	--
Accrued expenses	562,817	--	562,817	615,931
Banquet and other deposits	756,885	298,000	1,054,885	524,311
Capital lease obligation	94,601	--	94,601	--
Deferred initiation fees	--	234,350	234,350	221,500
Total current liabilities	<u>2,309,192</u>	<u>630,083</u>	<u>2,939,275</u>	<u>1,654,663</u>
Capital lease obligation, net current portion	--	--	--	94,601
Member deposits (Note 7)	--	31,000	31,000	32,100
Total liabilities	<u>2,309,192</u>	<u>661,083</u>	<u>2,970,275</u>	<u>1,781,364</u>
Commitments and contingencies (Notes 4, 10, 12, and 14)				
Net assets				
Unrestricted net assets	18,154,421	--	18,154,421	14,378,958
Net assets with restrictions	<u>--</u>	<u>3,866,348</u>	<u>3,866,348</u>	<u>5,164,819</u>
Total net assets	<u>18,154,421</u>	<u>3,866,348</u>	<u>22,020,769</u>	<u>19,543,777</u>
Total liabilities and net assets	<u>\$ 20,463,613</u>	<u>\$ 4,527,431</u>	<u>\$ 24,991,044</u>	<u>\$ 21,325,141</u>

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

PALOS VERDES GOLF CLUB

Statements of Activities and Changes in Net Assets

Year Ended December 31, 2021 with Comparative Totals for December 31, 2020

	2021			2020
	Operating	Club Improvement Fund	Total	Total
Revenues				
Membership dues	\$ 5,901,575	\$ --	\$ 5,901,575	\$ 5,772,860
Food and beverage	2,930,109	--	2,930,109	1,531,642
Golf activities	1,791,241	--	1,791,241	1,269,048
Lockers and fitness	158,351	--	158,351	111,854
Other income	9,374	--	9,374	19,428
Total revenues	<u>10,790,650</u>	<u>--</u>	<u>10,790,650</u>	<u>8,704,832</u>
Departmental expenses				
Food and beverage	3,349,911	--	3,349,911	2,616,725
Golf course	2,344,561	--	2,344,561	2,027,318
Golf activities	1,570,773	--	1,570,773	1,264,300
Lockers and fitness	135,672	--	135,672	119,251
General and administrative	2,071,673	--	2,071,673	1,977,936
Clubhouse grounds	192,350	--	192,350	172,581
Repairs and maintenance	251,576	--	251,576	214,199
Total departmental expenses	<u>9,916,516</u>	<u>--</u>	<u>9,916,516</u>	<u>8,392,310</u>
Revenue over expenses before depreciation and CIF activity	<u>874,134</u>	<u>--</u>	<u>874,134</u>	<u>312,522</u>
Other income (expense) and CIF activity				
Depreciation	(1,143,306)	--	(1,143,306)	(1,136,510)
Loss on disposal of assets	(623,068)	--	(623,068)	--
Employee retention credit	914,094	--	914,094	--
Interest income, net	--	16,463	16,463	26,802
Initiation fees, net	--	1,899,890	1,899,890	2,198,740
Capital fee income	--	703,885	703,885	699,795
Refunds paid to outgoing members, net	--	(165,100)	(165,100)	(248,100)
	<u>(852,280)</u>	<u>2,455,138</u>	<u>1,602,858</u>	<u>1,540,727</u>
Change in net assets before net assets released from restrictions	21,854	2,455,138	2,476,992	1,853,249
Net assets released from restrictions	3,753,609	(3,753,609)	--	--
Net assets beginning of year	<u>14,378,958</u>	<u>5,164,819</u>	<u>19,543,777</u>	<u>17,690,528</u>
Net assets end of the year	<u>\$ 18,154,421</u>	<u>\$ 3,866,348</u>	<u>\$ 22,020,769</u>	<u>\$ 19,543,777</u>

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

PALOS VERDES GOLF CLUB

Statements of Cash Flows

Year Ended December 31, 2021 with Comparative Totals for December 31, 2020

	2021			2020
	Operating	Club Improvement Fund	Total	Total
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ 21,854	\$ 2,455,138	\$ 2,476,992	\$ 1,853,249
Adjustment to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	1,143,306	--	1,143,306	1,136,510
Initiation fees, net	--	(1,899,890)	(1,899,890)	(2,198,740)
Refunds paid to outgoing members, net	--	165,100	165,100	248,100
Capital fees	--	(703,885)	(703,885)	(699,795)
Loss on disposal of assets	623,068	--	623,068	--
Change in operating assets and liabilities:				
Accounts receivable	(176,926)	--	(176,926)	134,230
Other receivable (Note 10)	(849,162)	--	(849,162)	--
Inventories	(6,678)	--	(6,678)	(37,343)
Prepaid expenses and other assets	(58,170)	--	(58,170)	(25)
Accounts payable	487,978	72,330	560,308	(94,688)
Accrued expenses	(53,114)	--	(53,114)	(191,837)
Member deposits	--	(1,100)	(1,100)	(6,900)
Deferred initiation fees	--	12,850	12,850	211,500
Banquet and other deposits	240,074	290,500	530,574	72,504
Total adjustments	1,350,376	(2,064,095)	(713,719)	(1,426,484)
Net cash provided by operating activities	1,372,230	391,043	1,763,273	426,765
CASH FLOW FROM INVESTING ACTIVITIES				
Proceeds from cart trade-in	--	--	--	146,000
Capital expenditures funded by CIF, net	(3,695,538)	--	(3,695,538)	(456,306)
Net cash used by investing activities	(3,695,538)	--	(3,695,538)	(310,306)
CASH FLOW FROM FINANCING ACTIVITIES				
Payments on lease obligation	--	--	--	(91,842)
Capital fees	--	703,885	703,885	699,795
Proceeds from initiation fees, net	--	1,899,890	1,899,890	2,198,740
Refunds paid to outgoing members, net	--	(165,100)	(165,100)	(248,100)
Net cash provided by financing activities	--	2,438,675	2,438,675	2,558,593
Increase in cash and cash equivalents before net assets released from restrictions	(2,323,308)	2,829,718	506,410	2,675,052
Net cash released from restrictions (Note 4)	3,753,609	(3,753,609)	--	--
Net increase (decrease) in cash and cash equivalents	1,430,301	(923,891)	506,410	2,675,052
CASH AND CASH EQUIVALENTS, beginning of year	1,460,787	5,451,322	6,912,109	4,237,057
CASH AND CASH EQUIVALENTS, end of year	\$ 2,891,088	\$ 4,527,431	\$ 7,418,519	\$ 6,912,109

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

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information: Palos Verdes Golf Club (the Club) is a California nonprofit social club, located in Palos Verdes Estates (PVE), 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: 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/Performance Measurement: The Club considers the change in net assets before depreciation, interest, and Club Improvement Fund activity on the accompanying statements of activities to be operating income for performance measurement purposes, as this is the line item budgeted for financial management and internal reporting purposes. The Club excludes from operations initiation fees, capital fees, and interest income that are 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.

Revenue Recognition: Revenue is recognized as performance obligations are satisfied. Membership dues and capital fee revenue is recognized at the amount that reflects the consideration received in exchange for membership privileges and access to the Club. Food, beverage, athletic, golf revenues and other fees are recorded as services are provided and the member obtains control of a good or service.

Membership Transactions: Initiation fees from Regular and Junior Executive Members (JEM) increase the net assets of the CIF when the initiation fee is billed, and the membership is effective. The Club records initiation fees when billed. Deferred initiation fees represent amounts paid by incoming members prior to the effective date of membership. Regular members are given the option to finance their membership fees upon joining the Club. Regular membership fees require a down payment and the balance of the membership fees are financed in installments. JEMs pay an upfront fee and annual installments until reaching 40 or 45 years of age (based on residency) at which point the balance of the Regular initiation fee is due.

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.

Any amounts payable to an outgoing member are recognized and paid upon a new Regular member joining the Club.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Membership Transactions (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 Concession Agreement (Note 4), non-residential property owner Regular members may not exceed thirty percent (30%) 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 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. The Club's Concession Agreement with PVE is effective through December 31, 2038. The Agreement grants the Club two (2) successive options to extend the terms for an additional ten (10) year period.

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 2021 and 2020.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expanded Membership: As of December 31, 2019, the interfund receivable and payable represented \$400,000 related to the expansion of the membership and the sale of 40 additional regular memberships. The funds were used for operations. During the year ended December 31, 2020, the City Council of the City of Palos Verdes Estates granted permanent relief from paying the interfund balance of \$400,000.

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.

Subsequent Events: The Club has evaluated all subsequent events through September 30, 2022, which is the date the financial statements are available to be issued and has determined that no events or transactions, other than that disclosed in Notes 10 and 14, require recognition or disclosure in these financial statements.

NOTE 2. INVENTORIES

Inventories consist of the following at December 31:

	2021	2020
Pro shop merchandise	\$ 167,272	\$ 181,765
Food	48,585	34,062
Beverage	148,377	143,582
Snack bar	<u>13,722</u>	<u>11,869</u>
	<u>\$ 377,956</u>	<u>\$ 371,278</u>

NOTE 3. CLUB FACILITIES AND EQUIPMENT

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

	2021	2020
Building improvements	\$ 13,129,411	\$ 13,995,544
Land improvements	6,668,173	6,091,759
Equipment and furnishings	3,064,833	3,231,861
Golf carts	<u>416,007</u>	<u>406,857</u>
	23,278,424	23,726,021
Less accumulated depreciation	<u>10,626,357</u>	<u>10,352,236</u>
	12,652,067	13,373,785
Construction in progress	<u>2,942,708</u>	<u>152,433</u>
Club facilities and equipment – net	<u>\$ 15,594,775</u>	<u>\$ 13,526,218</u>

During the year ended December 31, 2021, the Club disposed of assets with a net book value of approximately \$623,000. During the year ended December 31, 2020, the Club disposed of fully depreciated assets with original costs of approximately \$236,000. As of December 31, 2021 and 2020, construction in progress consists primarily of costs incurred on improvements to the east end and dining room.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020, the City Fee was \$1,004,877 and \$819,966, 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 defined “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, as defined in the 2016 restatement of the Concession Agreement, from food or beverage sales paid to employees. The exempted portion on private party sales shall not exceed eighteen percent (18%).

The Agreement also requires the maintenance of a CIF. The CIF is used for capital improvements and to refund certain assessments to members (Note 6). For the years ended December 31, 2021 and 2020, the Agreement required all member initiation fees, net of referral fees, be contributed to the CIF and a monthly Capital Fee contribution to the CIF that is charged to the membership based on the Club’s annual capital budget. 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. Effective January 1, 2020, the Club may also designate \$1,000 per membership sold, reducing the initiation fee contributed to the CIF, for such expenses as marketing, sales commissions, and administrative expenses. For the years ended December 31, 2021 and 2020, the allocation was \$36,000 and \$48,000.

During the year ended December 31, 2020, the City Council of the City of PVE, approved a permanent transfer of \$312,626 from the CIF to Club operations. The transfer was completed during the year ended December 31, 2020. There were no similar transfers during the year ended December 31, 2021.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 4. CONCESSION AGREEMENT (Continued)

For the years ended December 31, 2021 and 2020, activity in the CIF was as follows:

	2021	2020
Beginning balance	\$ 5,451,322	\$ 3,314,719
Additions		
Capital fees	703,885	699,795
Interest income	16,463	26,802
Deferred initiation fees and deposits – increase	303,350	219,000
Accounts payable – increase	72,330	25,403
Initiation fees and non-refundable senior deposits, net of referral credits	<u>1,899,890</u>	<u>2,198,740</u>
Total additions	<u>2,995,918</u>	<u>3,169,740</u>
Deductions		
Capital expenditures, net of proceeds from trade-in	3,695,538	310,306
Supplies (COVID-19)	--	55,945
Payments on lease obligation	--	99,260
Operating subsidies	--	312,626
Legal fees	58,071	--
Refund of senior deposits	1,100	6,900
Refunds and assessments paid to members	<u>165,100</u>	<u>248,100</u>
Total deductions	<u>3,919,809</u>	<u>1,033,137</u>
Ending balance	\$ <u>4,527,431</u>	\$ <u>5,451,322</u>

The CIF is maintained as follows as of December 31:

	2021	2020
Non-interest bearing deposit accounts	\$ 926,176	\$ 1,862,893
Interest bearing deposit accounts	<u>3,601,255</u>	<u>3,588,429</u>
	\$ <u>4,527,431</u>	\$ <u>5,451,322</u>

For the years ended December 31, net transfers from the CIF to Operations were:

	2021	2020
Capital expenditures funded by CIF, net	\$ 3,695,538	\$ 310,306
Supplies (COVID-19)	--	55,945
Payments on capital lease obligation funded by CIF	--	99,260
Legal fees	58,071	--
Operating subsidies	<u>--</u>	<u>312,626</u>
Net cash transfers from CIF to Operations	3,753,609	778,137
Interfund relief (non-cash)	<u>--</u>	<u>400,000</u>
Net asset transfers from CIF to Operations	\$ <u>3,753,609</u>	\$ <u>1,178,137</u>

NOTE 5. EMPLOYEE RETIREMENT PLAN

The Club sponsors a 401(k) plan with a Safe Harbor Match as approved by the Board of Directors. For this purpose, the plan was amended in November 2018 with an effective date of January 1, 2019. The Club matches for Non-Highly Compensated Employees 100% of employee salary deferrals for the first 3% and then 50% for the next 2% of salary in the form of a Safe Harbor Match. Highly Compensated Employees, as defined, have been excluded from receiving any matching contributions. For the years ended December 31, 2021 and 2020, the expense related to the matching was \$57,566 and \$60,869, respectively.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2021 and 2020

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, 2019	\$ 10,600	\$ 115,225	\$ 125,825
Refunds – 2020	<u> --</u>	<u> (14,000)</u>	<u> (14,000)</u>
Balance, December 31, 2020	10,600	101,225	111,825
Refunds – 2021	<u> --</u>	<u> (12,000)</u>	<u> (12,000)</u>
Balance, December 31, 2021	<u>\$ 10,600</u>	<u>\$ 89,225</u>	<u>\$ 99,825</u>

NOTE 7. MEMBER DEPOSITS

As of December 31, 2021 and 2020, 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.

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. As a tax exempt social club, the Club is limited in the amount of revenue that can be generated from nonmember sources. However, the Tax Reform Act of 1969 provides for the assessment of taxes on what is termed unrelated business income and investment income, including rental income. The Club only generates a tax obligation from investment income and any related income tax 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, 2021 and 2020. As of December 31, 2021, the Club's annual tax filings for the prior three (3) and four (4) years are open for audit by Federal and state tax agencies, respectively.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
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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. Interest and non-interest bearing accounts are FDIC insured up to \$250,000 per institution.

During the year ended December 31, 2019, the Club adopted a policy to invest in the Insurance Cash Sweeps (ICS) program. ICS is a deposit placement program that allows the Club to place a large deposit with an ICS Network member (a financial institution) to invest funds into interest-bearing savings accounts issued by other members of the ICS 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 ICS program, the Club may periodically maintain balances in excess of insured amounts. The Club has not experienced any losses on deposits.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Litigation: Periodically, the Club is involved in litigation in the normal course of business. As of December 31, 2021, the Club was not a party to litigation that would be expected to have a material adverse effect on the Club's financial condition.

COVID-19: The Club is subject to risks and uncertainties as a result of the coronavirus (COVID-19). As of December 31, 2021, the Club has not suffered any material negative financial impact due to COVID-19 and the Club does not believe it will experience any long term negative impact due to COVID-19.

In connection with COVID-19, certain payroll tax credits, the Employee Retention Credit (ERC), were made available to employers that continued to employ and compensate employees during the period of limited operations as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and extended by the Taxpayer Certainty and Disaster Tax Relief Act of 2020. During the year ended December 31, 2021, the Club recognized approximately \$914,000 in ERC and is reflected as other income on the accompanying financial statements. Approximately \$849,000 in ERC is reflected as accounts receivable – other as of December 31, 2021. The Club collected this amount in full in June 2022.

The CARES Act also allowed employers to defer the deposit of the employer's share of Social Security taxes during the payroll tax deferral period that started March 27, 2020 through December 31, 2020. The first 50% of the deferred deposits must be remitted by December 31, 2021 and the remaining 50% remitted no later than December 31, 2022. During the year ended December 31, 2021 and 2020, the Club deferred approximately \$71,000 and \$138,000 of the employer's portion of Social Security taxes. The deferred Social Security taxes are included in accrued expenses on the statement of financial position.

Commitment: Subsequent to the year ended December 31, 2021, the Club entered into an agreement with West Basin (an urban water wholesaler) and Cal Water (investor-owned utility) (Water Agreement). The purpose of the Water Agreement is to jointly pursue a recycled water project to deliver approximately 218 acre feet per year of recycled water for irrigation at the Club. The Water Agreement includes the design and construction of a conveyance pipeline that extends to the Club, a pump station, and lateral pipelines to other sites within the city of Torrance. In connection with the Water Agreement, the Club is obligated to reimburse West Basin for \$500,000 in costs and to implement certain modifications, as detailed in the Water Agreement, to comply with regulations and to pay all costs associated with such modifications in an amount not to exceed \$600,000.

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NOTE 11. 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, 2021 and 2020, the amounts of such transactions totaled approximately \$110,000 and \$108,000, respectively.

NOTE 12. 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. 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 years ended December 31, 2021 and 2020, the Club was no longer a member of the self-insured, pool and was insured under a fully-insured (traditional) plan. However, the Club remains jointly and severally liable for the expenses and obligations of the group and for the workers' compensation liability for all members incurred while a member.

NOTE 13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Club's financial assets as of the December 31, 2021 and 2020. The Club also maintains an available line of credit for \$250,000 (Note 14).

	2021	2020
Cash and cash equivalents – all funds	\$ 7,418,519	\$ 6,912,109
Accounts receivable, net	<u>570,761</u>	<u>393,835</u>
Financial assets at year-end	7,989,280	7,305,944
Less CIF funds, primarily intended for capital expenditures and other expenses as provided by the Concession agreement	<u>4,527,431</u>	<u>5,451,322</u>
Financial assets available to meet cash needs for general expenditure within one (1) year	<u>\$ 3,461,849</u>	<u>\$ 1,854,622</u>

NOTE 14. LINE OF CREDIT

The Club maintains a line of credit with its financial institution. The line of credit allows for borrowings of \$250,000. As amended, borrowings accrue interest at a variable interest rate (5.00% per annum at December 31, 2021). Subsequent to the year ended December 31, 2021, the line of credit was renewed to mature September 1, 2023 with any outstanding amounts due at maturity. As of December 31, 2021 and 2020, there were no borrowings on the line of credit.

NOTE 15. CAPITAL LEASE OBLIGATION

During the year ended December 31, 2020, the Club formalized a capital lease agreement and took possession of a fleet of golf carts. After applying an initial deposit of approximately \$207,000 and the first payment, the remaining obligation totaled approximately \$200,000 and is payable in two (2) annual installments of \$99,260 with an effective interest rate of 4.50%. During the year ended December 31, 2020, the Club paid the first installment payment. The second and final installment is payable in January 2022 and includes a total minimum payment of \$99,260 of which approximately \$4,700 represents interest. Amortization expense related to the leased golf cart fleet totaled approximately \$82,000 and \$68,000 for the years ended December 31, 2021 and 2020, respectively, and is included in depreciation expense on the statements of activities. Accumulated amortization totaled approximately \$150,000 and \$68,000 as of December 31, 2021 and 2020, respectively.

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NOTE 16. 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, 2021

	Club Programs			Support Services		Total
	Cost of sales	Payroll and related	Operating	Payroll and related	Other	
Food and beverage	\$ 1,028,314	\$ 1,552,217	\$ 769,380	\$ --	\$ --	\$ 3,349,911
Golf course	--	1,291,598	1,052,963	--	--	2,344,561
Golf activities	568,570	785,608	216,595	--	--	1,570,773
Lockers and fitness	--	106,604	29,068	--	--	135,672
General and administrative	--	--	--	833,631	1,238,042	2,071,673
Clubhouse operations	--	1,948	190,402	--	--	192,350
Facilities maintenance	--	<u>188,957</u>	<u>62,619</u>	--	--	<u>251,576</u>
Total departmental expenses	1,596,884	3,926,932	2,321,027	833,631	1,238,042	9,916,516
Depreciation	--	--	1,143,306	--	--	1,143,306
Refunds paid to outgoing members	--	--	<u>165,100</u>	--	--	<u>165,100</u>
Totals	<u>\$ 1,596,884</u>	<u>\$ 3,926,932</u>	<u>\$ 3,629,433</u>	<u>\$ 833,631</u>	<u>\$ 1,238,042</u>	<u>\$ 11,224,922</u>

Year Ended December 31, 2020

	Club Programs			Support Services		Total
	Cost of sales	Payroll and related	Operating	Payroll and related	Other	
Food and beverage	\$ 565,378	\$ 1,624,063	\$ 427,284	\$ --	\$ --	\$ 2,616,725
Golf course	--	1,229,691	797,627	--	--	2,027,318
Golf activities	376,282	698,774	189,244	--	--	1,264,300
Lockers and fitness	--	97,280	21,971	--	--	119,251
General and administrative	--	--	--	857,380	1,120,556	1,977,936
Clubhouse operations	--	1,915	170,666	--	--	172,581
Facilities maintenance	--	<u>150,559</u>	<u>63,640</u>	--	--	<u>214,199</u>
Total departmental expenses	941,660	3,802,282	1,670,432	857,380	1,120,556	8,392,310
Depreciation	--	--	1,136,510	--	--	1,136,510
Refunds paid to outgoing members	--	--	<u>248,100</u>	--	--	<u>248,100</u>
Totals	<u>\$ 941,660</u>	<u>\$ 3,802,282</u>	<u>\$ 3,055,042</u>	<u>\$ 857,380</u>	<u>\$ 1,120,556</u>	<u>\$ 9,776,920</u>

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NOTE 17. MEMBER INITIATION FEES – EXPECTED FUTURE BILLINGS

Upon joining the Club, Regular members may elect to pay their initiation fee over time in installments. In addition, the Club has a program for Junior Executive Members (JEM Program) who pay installments to be applied to Regular membership at the time of conversion. Expected future billings for initiation fees being paid in installments and those related to the JEM Program are as follows:

Years ending December 31,	Amount
2022	\$ 329,862
2023	227,675
2024	65,000
2025	199,000
2026	106,000
Thereafter	<u>617,000</u>
Total	<u>\$ 1,544,537</u>

As of December 31, 2021, expected future billings related to Regular members and the JEM Program are approximately \$279,000 and \$1,266,000, respectively.