

Palos Verdes Golf Club

Financial Report

Years Ended December 31, 2020 and 2019

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5-14



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, which comprise the statement of financial position as of December 31, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 24, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hutchinson and Bloodgood LLP

April 23, 2021

PALOS VERDES GOLF CLUB

Statements of Financial Position

December 31, 2020 with Comparative Totals for December 31, 2019

	2020			2019
	Operating	Club Improvement Fund	Total	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,460,787	\$ --	\$ 1,460,787	\$ 922,338
Accounts receivable-net of allowance for doubtful accounts of \$11,941 for 2020 and \$12,279 for 2019	393,835	--	393,835	528,065
Inventories (Note 2)	371,278	--	371,278	333,935
Prepaid expenses and other current assets	121,701	--	121,701	121,676
Total current assets	<u>2,347,601</u>	<u>--</u>	<u>2,347,601</u>	<u>1,906,014</u>
Club facilities and equipment, net (Note 3)	<u>13,526,218</u>	<u>--</u>	<u>13,526,218</u>	<u>14,165,979</u>
Club Improvement Fund (CIF)				
Cash and cash equivalents	--	5,451,322	5,451,322	3,314,719
Total Club Improvement Fund (Note 4)	<u>--</u>	<u>5,451,322</u>	<u>5,451,322</u>	<u>3,314,719</u>
Total assets	<u>\$ 15,873,819</u>	<u>\$ 5,451,322</u>	<u>\$ 21,325,141</u>	<u>\$ 19,386,712</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 267,518	\$ 25,403	\$ 292,921	\$ 387,609
Accrued expenses	615,931	--	615,931	807,768
Banquet and other deposits	516,811	7,500	524,311	451,807
Deferred initiation fees	--	221,500	221,500	10,000
Total current liabilities	<u>1,400,260</u>	<u>254,403</u>	<u>1,654,663</u>	<u>1,657,184</u>
Capital lease obligation	94,601	--	94,601	--
Member deposits (Note 7)	--	32,100	32,100	39,000
Total liabilities	<u>1,494,861</u>	<u>286,503</u>	<u>1,781,364</u>	<u>1,696,184</u>
Commitments and contingencies (Notes 4, 10, 12, and 14)				
Net assets				
Unrestricted net assets	14,378,958	--	14,378,958	14,024,809
Net assets with restrictions	--	5,164,819	5,164,819	3,665,719
Total net assets	<u>14,378,958</u>	<u>5,164,819</u>	<u>19,543,777</u>	<u>17,690,528</u>
Total liabilities and net assets	<u>\$ 15,873,819</u>	<u>\$ 5,451,322</u>	<u>\$ 21,325,141</u>	<u>\$ 19,386,712</u>

PALOS VERDES GOLF CLUB

Statements of Activities and Changes in Net Assets

Year Ended December 31, 2020 with Comparative Totals for December 31, 2019

	2020			2019
	Operating	Club Improvement Fund	Total	Total
Revenues				
Membership dues	\$ 5,772,860	\$ --	\$ 5,772,860	\$ 6,154,440
Food and beverage	1,531,642	--	1,531,642	3,653,371
Golf activities	1,269,048	--	1,269,048	1,577,361
Lockers and fitness	111,854	--	111,854	151,428
Other income	19,428	--	19,428	24,688
Total revenues	<u>8,704,832</u>	<u>--</u>	<u>8,704,832</u>	<u>11,561,288</u>
Departmental expenses				
Food and beverage	2,616,725	--	2,616,725	4,335,477
Golf course	2,027,318	--	2,027,318	2,075,973
Golf activities	1,264,300	--	1,264,300	1,525,935
Lockers and fitness	119,251	--	119,251	176,484
General and administrative	1,977,936	--	1,977,936	2,199,751
Clubhouse grounds	172,581	--	172,581	201,316
Repairs and maintenance	214,199	--	214,199	320,707
Total departmental expenses	<u>8,392,310</u>	<u>--</u>	<u>8,392,310</u>	<u>10,835,643</u>
Revenue over expenses before depreciation and CIF activity	<u>312,522</u>	<u>--</u>	<u>312,522</u>	<u>725,645</u>
Depreciation and CIF activity				
Depreciation	(1,136,510)	--	(1,136,510)	(1,055,098)
Legal fees	--	--	--	(35,388)
Interest income, net	--	26,802	26,802	10,756
New member initiation fees, net	--	2,198,740	2,198,740	1,056,921
Capital fee income	--	699,795	699,795	--
Refunds paid to outgoing members, net	--	(248,100)	(248,100)	(152,146)
	<u>(1,136,510)</u>	<u>2,677,237</u>	<u>1,540,727</u>	<u>(174,955)</u>
Change in net assets before net assets released from restrictions	(823,988)	2,677,237	1,853,249	550,690
Net assets released from restrictions (Note 4)	1,178,137	(1,178,137)	--	--
Net assets beginning of year	<u>14,024,809</u>	<u>3,665,719</u>	<u>17,690,528</u>	<u>17,139,838</u>
Net assets end of the year	<u>\$ 14,378,958</u>	<u>\$ 5,164,819</u>	<u>\$ 19,543,777</u>	<u>\$ 17,690,528</u>

PALOS VERDES GOLF CLUB

Statements of Cash Flows

Year Ended December 31, 2020 with Comparative Totals for December 31, 2019

	2020			2019
	Operating	Club Improvement Fund	Total	Total
CASH FLOW FROM OPERATING ACTIVITIES				
Change in net assets	\$ (823,988)	\$ 2,677,237	\$ 1,853,249	\$ 550,690
Adjustment to reconcile change in net assets to net cash provided by operating activities				
Depreciation	1,136,510	--	1,136,510	1,055,098
New member initiation fees, net	--	(2,198,740)	(2,198,740)	(1,062,921)
Refunds paid to outgoing members, net	--	248,100	248,100	152,146
Capital fees	--	(699,795)	(699,795)	--
Change in operating assets and liabilities				
Accounts receivable	134,230	--	134,230	(162,886)
Inventories	(37,343)	--	(37,343)	(8,590)
Prepaid expenses and other assets	(25)	--	(25)	(23,634)
Accounts payable	(120,091)	25,403	(94,688)	(83,022)
Accrued expenses	(191,837)	--	(191,837)	44,347
Member deposits	--	(6,900)	(6,900)	(900)
Deferred initiation fees	--	211,500	211,500	(46,500)
Banquet and other deposits	65,004	7,500	72,504	286,083
Total adjustments	986,448	(2,412,932)	(1,426,484)	149,221
Net cash provided by operating activities	162,460	264,305	426,765	699,911
CASH FLOW FROM INVESTING ACTIVITIES				
Decrease in certificates of deposit	--	--	--	2,002,720
Proceeds from cart trade-in	146,000	--	146,000	--
Capital expenditures funded by CIF, net	(456,306)	--	(456,306)	(2,045,474)
Net cash used by investing activities	(310,306)	--	(310,306)	(42,754)
CASH FLOW FROM FINANCING ACTIVITIES				
Payments on lease obligation	(91,842)	--	(91,842)	--
Capital fees	--	699,795	699,795	--
Proceeds from initiation fees, net	--	2,198,740	2,198,740	1,062,921
Refunds paid to outgoing members, net	--	(248,100)	(248,100)	(152,146)
Net cash (used) provided by financing activities	(91,842)	2,650,435	2,558,593	910,775
(Decrease) increase in cash and cash equivalents before net assets released from restrictions	(239,688)	2,914,740	2,675,052	1,567,932
Net cash released from restrictions (Note 4)	778,137	(778,137)	--	--
Net increase in cash and cash equivalents	538,449	2,136,603	2,675,052	1,567,932
CASH AND CASH EQUIVALENTS, beginning of year	922,338	3,314,719	4,237,057	2,669,125
CASH AND CASH EQUIVALENTS, end of year	\$ 1,460,787	\$ 5,451,322	\$ 6,912,109	\$ 4,237,057

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

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

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 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, 2020 and 2019

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 2020 or 2019.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

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 April 23, 2021 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:

	2020	2019
Pro shop merchandise	\$ 181,765	\$ 173,998
Food	34,062	43,724
Beverage	143,582	109,689
Snack bar	<u>11,869</u>	<u>6,524</u>
	<u>\$ 371,278</u>	<u>\$ 333,935</u>

NOTE 3. CLUB FACILITIES AND EQUIPMENT

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

	2020	2019
Building improvements	\$ 13,995,544	\$ 13,948,194
Land improvements	6,091,759	5,937,682
Equipment and furnishings	3,231,861	3,113,639
Golf carts	<u>406,857</u>	<u>378,696</u>
	23,726,021	23,378,211
Less accumulated depreciation	<u>10,352,236</u>	<u>9,451,500</u>
	13,373,785	13,926,711
Construction in progress	<u>152,433</u>	<u>239,268</u>
Club facilities and equipment – net	<u>\$ 13,526,218</u>	<u>\$ 14,165,979</u>

During the years ended December 31, 2020 and 2019, the Club disposed of fully depreciated assets with original costs of approximately \$236,000 and \$80,000, respectively. As of December 31, 2020, construction in progress consists primarily of costs incurred on improvements to the east end and dining room. As of December 31, 2019, construction in progress includes a deposit on a new golf cart fleet of approximately \$207,000 and costs incurred related to the dining room redesign of approximately \$32,000.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019, the City Fee was \$819,966 and \$1,096,710, 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 (Note 6). For the years ended December 31, 2020 and 2019, the Agreement required all member initiation fees, net of referral fees, be contributed to the CIF. Effective January 1, 2020, the Concession Agreement requires a monthly Capital Fee contribution to the CIF that is charged to the membership based on the Club's annual capital budget. For the year ended December 31, 2019, the Agreement required ten percent (10%) of member dues, and ten percent (10%) of gross receipts relating to or arising from the golf course be contributed to the CIF. The CIF reverts to PVE upon the termination of the Agreement.

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 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 year ended December 31, 2020, the allocation was \$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. During the year ended December 31, 2019, the Club transferred \$230,000 to the CIF, representing non-refundable deposits made by Senior members. During the year ended December 31, 2019, in connection with the 2019 capital budget, the CIF provided \$200,000 in operating subsidies. In addition, \$592,175 was transferred from the CIF to the Club representing excess cash transfers, made in prior years, from Club operations to the CIF. The Club's Board of Directors and management believe all transfers were made in accordance with the terms of the Concession Agreement.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 4. CONCESSION AGREEMENT (Continued)

For the years ended December 31, 2020 and 2019, activity in the CIF was as follows:

	2020	2019
Beginning balance	<u>\$ 3,314,719</u>	<u>\$ 4,372,661</u>
Additions		
Contribution from operations	--	712,830
Capital fees	699,795	--
Transfer of non-refundable senior deposits	--	230,000
Proceeds from sale of furniture and equipment	--	4,660
Interest income	26,802	10,230
Deferred initiation fees and deposits – increase	219,000	--
Accounts payable – increase	25,403	--
Initiation fees and non-refundable senior deposits, net of referral credits	<u>2,198,740</u>	<u>1,056,921</u>
Total additions	<u>3,169,740</u>	<u>2,014,641</u>
Deductions		
Capital expenditures, net proceeds from trade-in	310,306	2,045,474
Supplies (COVID-19)	55,945	--
Payments on lease obligation	99,260	--
Repayment of cash transfers	--	592,175
Operating subsidies	312,626	200,000
Deferred initiation fees – decrease	--	47,400
Legal fees	--	35,388
Refunds and assessments paid to members	<u>255,000</u>	<u>152,146</u>
Total deductions	<u>1,033,137</u>	<u>3,072,583</u>
Ending balance	<u>\$ 5,451,322</u>	<u>\$ 3,314,719</u>

The CIF is maintained as follows as of December 31:

	2020	2019
Non-interest bearing deposit accounts	\$ 1,862,893	\$ 551,269
Interest bearing deposit accounts	<u>3,588,429</u>	<u>2,763,450</u>
	<u>\$ 5,451,322</u>	<u>\$ 3,314,719</u>

For the years ended December 31, 2020 and 2019, net transfers from the CIF to Operations were:

	2020	2019
Capital expenditures funded by CIF, net	\$ 310,306	\$ 2,045,474
Supplies (COVID-19)	55,945	--
Payments on capital lease obligation funded by CIF	99,260	--
Proceeds from sale of furniture and equipment	--	(4,660)
Repayment of cash transfers	--	592,175
Operating subsidies	312,626	200,000
Legal fees	<u>--</u>	<u>35,388</u>
Net cash transfers from CIF to Operations	778,137	2,868,377
Interfund relief (non-cash)	<u>400,000</u>	<u>--</u>
Net asset transfers from CIF to Operations	<u>\$ 1,178,137</u>	<u>\$ 2,868,377</u>

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019, the expense related to the matching was \$60,869 and \$64,722, 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, 2018	\$ 10,600	\$ 115,225	\$ 125,825
Refunds – 2019	<u> --</u>	<u> --</u>	<u> --</u>
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	<u>\$ 10,600</u>	<u>\$ 101,225</u>	<u>\$ 111,825</u>

NOTE 7. MEMBER DEPOSITS

As of December 31, 2020 and 2019, 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.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 8. INCOME TAXES (Continued)

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, 2020 and 2019. As of December 31, 2020, 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. Subsequent to the year ended December 31, 2019, the Club received notice of a Federal tax return audit for the 2017 tax year. 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). Due to COVID-19, the commencement of the audit has been delayed and as of the report date the Club has only received initial requests for documentation and the audit is in the preliminary stages.

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. CONTINGENCIES

Litigation: Periodically, the Club is involved in litigation in the normal course of business. As of December 31, 2020, 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 outbreak of the coronavirus (COVID-19) resulted in the temporary closure of the Club in March 2020. This action was taken to comply with guidance issued from the governor of California and local government. The Club has since opened for limited activities and limited food and beverage service. At this time, neither the duration nor scope of the disruption can be predicted, and the potential negative financial impact to the Club's financial results or financial condition cannot be reasonably estimated.

In connection with COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was implemented to provide economic assistance during government-mandated shutdowns. The CARES Act allows 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, 2020, the Club deferred approximately \$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 as of December 31, 2020.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019, the amounts of such transactions totaled approximately \$108,000 and \$129,000, 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, 2020 and 2019, 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, 2020 and 2019. The Club also maintains an available line of credit for \$250,000 (Note 14).

	2020	2019
Cash and cash equivalents – all funds	\$ 6,912,109	\$ 4,237,057
Accounts receivable, net	<u>393,835</u>	<u>528,065</u>
Financial assets at year-end	7,305,944	4,765,122
Less CIF funds, primarily intended for capital expenditures and other expenses as provided by the Concession agreement	<u>5,451,322</u>	<u>3,314,719</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,854,622</u>	<u>\$ 1,450,403</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 and, based on the underlying agreement, the interest rate will never be less than 4.25% per annum. During the year ended December 31, 2020, the line of credit was renewed to mature in September 2021 with any outstanding amounts due at maturity. As of December 31, 2020 and 2019, there were no borrowings on the line of credit.

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 15. CAPITAL LEASE OBLIGATION

As of December 31, 2019, the Club made a deposit and first payment in connection with a fleet of golf carts totaling approximately \$207,000. During the year ended December 31, 2020, the Club formalized a capital lease agreement and took possession of the fleet of golf carts. After applying the initial deposit and 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.

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, 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
Other	--	--	<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>

PALOS VERDES GOLF CLUB

Notes to Financial Statements
December 31, 2020 and 2019

NOTE 16. EXPENSES BY NATURE AND FUNCTION (Continued)

Year Ended December 31, 2019

	Club Programs			Support Services		Total
	Cost of sales	Payroll and related	Operating	Payroll and related	Other	
Food and beverage	\$ 1,326,604	\$ 1,965,343	\$ 1,043,530	\$ --	\$ --	\$ 4,335,477
Golf course	--	1,260,515	815,458	--	--	2,075,973
Golf activities	458,993	829,965	236,977	--	--	1,525,935
Lockers and fitness	--	135,255	41,229	--	--	176,484
General and administrative	--	--	--	854,541	1,345,210	2,199,751
Clubhouse operations	--	3,015	198,301	--	--	201,316
Facilities maintenance	--	<u>193,514</u>	<u>127,193</u>	--	--	<u>320,707</u>
Total departmental expenses	1,785,597	4,387,607	2,462,688	854,541	\$1,345,210	10,835,643
Depreciation	--	--	1,055,098	--	--	1,055,098
Other	--	--	<u>187,534</u>	--	--	<u>187,534</u>
Totals	<u>\$ 1,785,597</u>	<u>\$ 4,387,607</u>	<u>\$ 3,705,320</u>	<u>\$ 854,541</u>	<u>\$1,345,210</u>	<u>\$12,078,275</u>

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
2021	\$ 242,377
2022	243,533
2023	125,000
2024	97,000
2025	204,000
Thereafter	<u>831,000</u>
Total	<u>\$ 1,742,910</u>

As of December 31, 2020, expected future billings related to Regular members and the JEM Program are approximately \$224,000 and \$1,519,000, respectively.