

DIAMONDHEAD COUNTRY CLUB
AND PROPERTY OWNERS ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Diamondhead Country Club and
Property Owners Association, Inc.

We have audited the accompanying financial statements of Diamondhead Country Club and Property Owners Association, Inc. (the Association), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Association'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 Association'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.

Board of Directors
Diamondhead Country Club and
Property Owners Association, Inc.
April 28, 2014

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Diamondhead Country Club and Property Owners Association, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Club Operations and the Schedule of Other Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the required information about future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

April 28, 2014
New Orleans, Louisiana

Erickson, Krentel & LaPorte, LLP

Certified Public Accountants

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

ASSETS

| | <u>2013</u> | <u>2012</u> |
|---|--------------------------|--------------------------|
| <u>ASSETS:</u> | | |
| Cash, undesignated | \$ 711,370 | \$ 892,799 |
| Cash, designated for future repairs | 508,472 | 506,562 |
| Member assessments receivable, net of allowance for uncollectible balances of \$1,072,542 and \$1,167,167 in 2013 and 2012 | 1,163,715 | 1,237,957 |
| Other receivables | 609 | 12,993 |
| Inventories | 128,621 | 122,907 |
| Lot inventory | 271,393 | 251,572 |
| Prepaid expenses | 116,080 | 108,820 |
| Prepaid income taxes | 3,291 | - |
| Deferred income tax benefit | 724,689 | 631,934 |
| Property and equipment, net | <u>7,060,760</u> | <u>6,429,441</u> |
| Total assets | <u>\$ 10,689,000</u> | <u>\$ 10,194,985</u> |

LIABILITIES AND MEMBERS' EQUITY

| | | |
|---|--------------------------|--------------------------|
| <u>LIABILITIES:</u> | | |
| Accounts payable | \$ 134,156 | \$ 268,076 |
| Accrued expenses | 130,398 | 138,423 |
| Deferred revenue | 709,458 | 679,057 |
| Accrued compensated absences | 78,909 | 84,808 |
| Capital lease obligation | <u>50,401</u> | <u>-</u> |
| Total liabilities | <u>1,103,322</u> | <u>1,170,364</u> |
| <u>MEMBERS' EQUITY</u> | <u>9,585,678</u> | <u>9,024,621</u> |
| Total liabilities and members' equity | <u>\$ 10,689,000</u> | <u>\$ 10,194,985</u> |

See accompanying NOTES TO FINANCIAL STATEMENTS

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|--|--------------|--------------|
| <u>REVENUES:</u> | | |
| <u>Club Operations:</u> | | |
| Sales | \$ 2,844,181 | \$ 2,644,916 |
| Cost of sales | (772,098) | (739,437) |
| Gross profit | 2,072,083 | 1,905,479 |
| Operating expenses | (3,685,500) | (3,453,524) |
| Club operating loss | (1,613,417) | (1,548,045) |
| <u>Other Income:</u> | | |
| Member assessments | 4,404,899 | 5,421,797 |
| Bad debts | (491,576) | (359,341) |
| Member assessments, net | 3,913,323 | 5,062,456 |
| Lot transfer and consolidation fees | 141,039 | 125,305 |
| Gain on sale of lots | - | 6,747 |
| Gain (loss) on sale of assets | (9,450) | 4,256 |
| Community services | 59,351 | 93,765 |
| Architectural and engineering | 21,109 | 33,355 |
| Rental income | 63,000 | 31,500 |
| Interest income | 5,003 | 7,000 |
| Miscellaneous | 247,162 | 35,914 |
| Total other income | 4,440,537 | 5,400,298 |
| Total revenues | 2,827,120 | 3,852,253 |
| <u>EXPENSES:</u> | | |
| Road, grounds and building maintenance | 511,219 | 1,090,631 |
| Administration | 1,347,363 | 1,430,812 |
| Membership and collections | 195,915 | 197,513 |
| Community services | 193,457 | 920,426 |
| Architectural and engineering | 110,864 | 75,567 |
| Total expenses | 2,358,818 | 3,714,949 |
| Income before income taxes | 468,302 | 137,304 |
| (Provisions for) benefit from income taxes | 92,755 | 170,869 |
| Change in members' equity | 561,057 | 308,173 |
| Members' equity, beginning of year | 9,024,621 | 8,716,448 |
| Members' equity, end of year | \$ 9,585,678 | \$ 9,024,621 |

See accompanying NOTES TO FINANCIAL STATEMENTS

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| <u>RECONCILIATION OF CHANGE IN MEMBERS' EQUITY TO NET</u> | | |
| <u>CASH FROM (USED IN) OPERATING ACTIVITIES:</u> | | |
| Change in members' equity | \$ 561,057 | \$ 308,173 |
| Adjustments to reconcile change in members' equity to net cash provided by operating activities: | | |
| Depreciation expense | 675,854 | 586,098 |
| Bad debts | 491,576 | 359,341 |
| Gain on sale of lots | - | (6,747) |
| Loss (gain) on sale of equipment | 9,450 | (4,256) |
| (Increase) decrease in assets: | | |
| Member assessments receivable | (437,155) | (452,082) |
| Other receivables | 12,384 | (10,770) |
| Inventories | (5,714) | 21,665 |
| Prepaid expenses | (7,260) | 5,080 |
| Prepaid income taxes | (3,291) | - |
| Deferred income taxes | (92,755) | (170,869) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (133,920) | 121,678 |
| Accrued expenses | (8,025) | (7,937) |
| Deferred revenue | 30,401 | (150,420) |
| Accrued compensated absences | (5,899) | (1,807) |
| Net cash from operating activities | <u>1,086,703</u> | <u>597,147</u> |
| <u>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</u> | | |
| Purchase of property and equipment | (1,333,023) | (720,058) |
| Proceeds from sale of equipment | <u>16,400</u> | <u>7,021</u> |
| Net cash (used in) investing activities | <u>(1,316,623)</u> | <u>(713,037)</u> |
| <u>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</u> | | |
| Capital lease obligation proceeds | 68,710 | - |
| Capital lease obligation payments | <u>(18,309)</u> | <u>-</u> |
| Net cash from financing activities | <u>50,401</u> | <u>-</u> |
| Net (decrease) in cash and cash equivalents | (179,519) | (115,890) |
| Cash and cash equivalents, beginning of year | <u>1,399,361</u> | <u>1,515,251</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,219,842</u> | <u>\$ 1,399,361</u> |
| <u>NON-CASH TRANSACTIONS:</u> | | |
| Repossession of lots | <u>\$ 19,821</u> | <u>\$ 63,101</u> |

See accompanying NOTES TO FINANCIAL STATEMENTS

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Diamondhead Country Club and Property Owners Association, Inc. (Association) is a Mississippi non-profit corporation chartered on June 8, 1970. It is operated exclusively for the mutual benefit of the membership and is responsible for the improvement, maintenance, and management of the common facilities of the Diamondhead Development located in south Mississippi. The development consists of approximately 4,500 residential units located on approximately 5,000 acres in Diamondhead, Mississippi. As explained in Note 5, the Association was not responsible for the common facilities until January 1, 1985. The Association receives the majority of its operating revenues from the assessment of its members and the operation of its golf courses.

Basis of Accounting

The Association prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Inventories

Inventories are carried at the lower of average cost or market.

Member (Owner) Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from property owners. The Association's policy is to retain legal counsel to enforce the liens on properties of members whose assessments become delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Property and Equipment

Acquisitions of buildings, equipment, and improvements in excess of \$750 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized with the exception of repairs or improvements to real property not directly associated with the property units, such as the roads in the subdivision. The Association accounts for improvements under the provisions of FASB ASC 972-360-25 which allows such repairs and improvements to be expensed by a Common Interest Realty Association if the asset cannot generate revenue or be subject to sale by the Association.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

(1) **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and Equipment (Continued)

Buildings, equipment, and improvements are stated at cost less accumulated depreciation. Depreciation is being provided by use of the straight-line method over the estimated useful lives of the related assets.

Deferred Revenue

Deferred revenue results from the Association recognizing member assessments and golf assessments in the period in which the related activity is performed. Accordingly, member assessments and golf assessments received for next year are deferred until the activity commences.

Compensated Absences

The Association accrues accumulated unpaid vacation when earned (or estimated to be earned) by the employee.

Income Taxes

The Association is classified as a nonexempt membership organization for federal income tax purposes and is subject to specific rulings and regulations applicable to memberships organizations. In general, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as country club income and interest earnings, at regular corporate rates. The Association files federal Form 1120, which has graduated tax rates of 15% to 39% that are applied to net taxable income.

The Association is exempt from state income tax.

The Association's evaluation as of December 31, 2013 revealed no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The 2010 through 2013 tax years remain subject to examination by the IRS.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Actual results could differ from those estimates.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

(1) **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Advertising

The Association expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2013 and 2012 was \$95,652 and \$94,976, respectively.

Common Facilities

The Association has not completed its study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Board has also not developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

Subsequent Events

Subsequent events have been evaluated through April 28, 2014, which is the date the financial statements were available to be issued.

(2) **MEMBER ASSESSMENTS RECEIVABLE**

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Member assessments receivable | \$ 2,236,257 | \$ 2,405,124 |
| Less allowance for uncollectible balances | <u>(1,072,542)</u> | <u>(1,167,167)</u> |
| Member assessments receivable, net | <u>\$ 1,163,715</u> | <u>\$ 1,237,957</u> |

Assessments receivable is shown net of an allowance for uncollectible balances. This provision for losses on assessments receivable is determined on the basis of loss experience, currently estimated to be 65% of those receivables ninety or more days past due. The ultimate collection of some of these member assessments relies on liens, repossessions and subsequent sales of the lien property, and therefore should not be considered available for current obligations of the Association.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

(3) LOT INVENTORY

Lot inventory represents lots repossessed for non-payment of membership dues. These lots are valued at the smaller of the members' receivable balance at the time of repossession or the estimated fair value of the lots as determined by similar sales.

(4) PROPERTY AND EQUIPMENT

| | 2013 | 2012 |
|--------------------------------|--------------|--------------|
| Building and improvements | \$ 9,140,606 | \$ 8,526,099 |
| Equipment | 2,110,184 | 1,886,053 |
| Furniture and fixtures | 1,129,585 | 1,043,442 |
| Cars and trucks | 518,846 | 592,189 |
| Computers and software | 292,521 | 412,989 |
| Land | 107,553 | 107,553 |
| Construction in progress | 103,642 | 108,862 |
| Total | 13,402,937 | 12,677,187 |
| Less: accumulated depreciation | (6,342,177) | (6,247,746) |
| Property and equipment, net | \$ 7,060,760 | \$ 6,429,441 |

Depreciation expense booked for the years ended December 31, 2013 and 2012 was \$675,854 and \$586,098, respectively.

(5) COMMON FACILITIES

On January 1, 1985, Purcell Corporation, the developer of Diamondhead, transferred title of the common facilities to the Association for \$1. Common facilities include the country club, pro shop, golf courses, driving range, airport, yacht club, marina, lakes, roads, grounds, etc. Representations made by Purcell Corporation indicate that the common facilities had an original cost of \$14,301,266. On January 7, 2013, roads, drainage, and other common-use facilities were transferred to the City as part of an agreement between the City of Diamondhead and the Association.

(6) INCOME TAXES

The components of federal income tax expense (benefit) for the year ended December 31, 2013 and 2012 are:

| | 2013 | 2012 |
|---|-------------|--------------|
| Deferred income tax expense (benefit) arising from timing differences | \$ (92,755) | \$ (170,869) |

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

(6) INCOME TAXES (CONTINUED)

Deferred income taxes payable is made up of the following:

| | 2013 | 2012 |
|--|--------------|--------------|
| Temporary differences in using cash basis for tax purposes | \$ 8,457 | \$ 84,405 |
| Temporary depreciation differences | 602,460 | 475,524 |
| Net operating loss carryover, net of valuation allowance of \$1,335,606 in 2013 and \$1,191,863 in 2012. | (1,335,606) | (1,191,863) |
| Deferred income tax (benefit) payable | \$ (724,689) | \$ (631,934) |

The major difference between net income per the financial statements and taxable income (loss) per the federal income tax return is the exclusion of contributed capital from net membership income.

At December 31, 2013, the Association had a net operating loss carryforwards totaling approximately \$10,558,836 expiring in various years through 2032.

(7) EMPLOYEE RETIREMENT PLANS

The Association sponsors a defined contribution retirement plan with Section 401(k) provisions. The plan is available to substantially all of the Association's employees. The plan provides for participating employees to make salary reduction (elective deferral) contributions up to 15% of their compensation into the plan with the Association making a matching contribution equal to 50% of the first \$1,000 of deferred compensation. Employer matching contributions in the amounts of \$16,317 and \$18,970 were made for the years ending December 31, 2013 and 2012, respectively.

(8) CONTINGENCIES

The Association is involved in various legal matters arising during the normal course of business. Management, after consulting legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial condition of the Association.

(9) LINE OF CREDIT

The Association maintains a \$900,000 unsecured line of credit with Hancock Bank. It bears interest at 3.25% and expires August 26, 2014. At December 31, 2013 and 2012, the outstanding loan balance on this line of credit was \$0.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

(10) CONCENTRATIONS OF CREDIT RISK

The Association maintains cash balances at Hancock Bank, which at times may exceed the federally insured limit of \$250,000. At December 31, 2013 and 2012, the Association had \$997,869 and \$1,262,655, respectively, of cash on deposit that exceeded federally insured limits.

(11) LEASES

Operating Leases

The Association has entered into leases for mowing and office equipment. Total rental equipment expense was \$173,526 and \$312,539 for the years ending December 31, 2013 and 2012, respectively.

Minimum annual rentals for years subsequent to 2013 are:

| | | |
|-----------|--------|--------------------|
| 2014 | \$ | 91,515 |
| 2015 | | 74,946 |
| 2016 | | 41,808 |
| 2017 | | <u>10,452</u> |
| Total | \$ | <u>218,721</u> |

The Association negotiated a lease with Silver Slipper Casino Venture, LLC to lease its waterfront restaurant within the Diamondhead Development. The initial lease dated August 25, 2008, calls for an initial term of ten (10) years with two additional ten (10) year renewal options. Minimum annual rental income is \$60,000. Minimum annual rental income for each renewal option period is adjusted by the Consumer Price Index, but not to exceed three percent (3%) per year. For the period of February 1, 2011 through July 31, 2012, the rent was reduced to \$2,000 per month. For the period August 1, 2012 through December 31, 2012 the rent increased to \$3,500 per month. A new agreement was negotiated to start on January 1, 2013 that calls for a term of seven (7) years. In November 2012, the Board approved the request from Silver Slipper to cease business at the restaurant. In addition, an agreement with Silver Slipper was reached regarding the completion of the 7 years remaining on the lease. The Silver Slipper will continue to make monthly payments, receive vouchers for golf and food, and continue insurance through the renewal date in 2013. Rental income under this lease was \$63,000 and \$31,500 for the years ended December 31, 2013 and 2012, respectively.

The Association negotiated a lease with Harbor House, LLC on December 17, 2012 to lease the restaurant property at 3410 Yacht Club Circle – previously known as Hula’s. The term commences on January 1, 2013 and ending on March 31, 2018. The rent will be \$4,000 per month with the option for two additional five (5) year terms at a rent to be negotiated upon exercising such option(s).

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

(11) LEASES (CONTINUED)

Operating Leases (Continued)

Minimum annual rentals for years subsequent to 2013 are:

| | | |
|-----------|----|-----------------------|
| 2014 | \$ | 48,000 |
| 2015 | | 48,000 |
| 2016 | | 48,000 |
| 2017 | | 48,000 |
| 2018 | | <u>12,000</u> |
| Total | | <u>\$ 204,000</u> |

Capital Lease

The Association entered into a 36 month lease for golf course equipment on February 18, 2013. The asset and liabilities under the capital lease are recorded at the lesser of the present value of the minimum lease payments or the fair market value of property received. The asset is amortized over its estimated life of three years.

Amortization expense and accumulated amortization of the leased property for the year ended December 31, 2013 was \$4,582 and is included in depreciation expense in the accompanying financial statements. The cost of the equipment under capital lease was \$68,710.

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of December 31, 2013:

| | | |
|--|----|----------------------|
| 2014 | \$ | 24,917 |
| 2015 | | 24,917 |
| 2016 | | <u>4,153</u> |
| Net minimum lease payments | | 53,987 |
| Less: amount representing interest | | <u>(3,586)</u> |
| Present value of minimum lease payments | | <u>\$ 50,401</u> |

Lease payments during the year ended December 31, 2013 totaled \$18,309.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

(12) RECLASSIFICATIONS

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
SCHEDULE OF CLUB OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | | | | | | Totals | |
|-------------------------------------|--------------------|--------------|-------------|-------------|--------------|----------------|----------------|
| | Food & Beverage | Golf | Tennis | Marina | Recreation | 2013 | 2012 |
| Sales | \$ 1,279,779 | \$ 1,360,529 | \$ 67,211 | \$ 59,433 | \$ 77,229 | \$ 2,844,181 | \$ 2,644,916 |
| Cost of sales | (568,150) | (155,037) | - | (21,099) | (27,812) | (772,098) | (739,437) |
| Gross profit | 711,629 | 1,205,492 | 67,211 | 38,334 | 49,417 | 2,072,083 | 1,905,479 |
| Expenses: | | | | | | | |
| Advertising | 3,103 | 9,134 | - | - | 129 | 12,366 | 45,764 |
| Casual labor | - | - | - | - | 61,745 | 61,745 | 42,025 |
| Contract services | - | 2,889 | - | - | - | 2,889 | 352 |
| Credit card discounts | 20,835 | 9,317 | - | 312 | 670 | 31,134 | 28,095 |
| Depreciation | 42,945 | 288,985 | 39,646 | 46,641 | 33,583 | 451,800 | 376,071 |
| Dues and subscriptions | 1,525 | 1,426 | 65 | - | - | 3,016 | 1,485 |
| Employee benefits and payroll taxes | 134,624 | 179,933 | 14,099 | 1,920 | 21,198 | 351,774 | 334,029 |
| Freight | - | 6,627 | - | 242 | - | 6,869 | 6,359 |
| Gas and oil | - | 65,991 | - | - | 171 | 66,162 | 62,396 |
| Handicap fees | - | 5,093 | - | - | - | 5,093 | 5,060 |
| Insurance | 15,918 | 25,878 | 1,630 | 3,153 | 6,919 | 53,498 | 49,369 |
| Laundry | - | - | - | - | - | - | 285 |
| Miscellaneous | 6,760 | 4,666 | 14,334 | 611 | 9,767 | 36,138 | 31,537 |
| Office supplies and postage | 2,052 | 6,905 | 124 | 430 | 407 | 9,918 | 20,447 |
| Professional fees | - | 1,850 | - | - | - | 1,850 | 2,380 |
| Promotional expenses | 37,333 | 10,006 | - | - | - | 47,339 | 42,144 |
| Rental and lease | 8,108 | 142,856 | - | 273 | 66 | 151,303 | 255,246 |
| Repairs and maintenance | 46,109 | 95,739 | 4,063 | 6,534 | 12,696 | 165,141 | 129,258 |
| Salaries | 586,175 | 849,839 | 52,901 | 17,919 | 39,680 | 1,546,514 | 1,357,077 |
| Small tools | 211 | 8,677 | - | - | 1,521 | 10,409 | 12,669 |
| Supplies | 88,606 | 215,195 | 265 | 370 | 32,867 | 337,303 | 345,144 |
| Taxes and licenses | 13,100 | 100 | - | 40 | - | 13,240 | 10,927 |
| Telephone | 6,692 | 3,522 | 717 | 1,207 | 1,869 | 14,007 | 12,709 |
| Travel | 615 | 4,361 | 203 | - | 554 | 5,733 | 5,372 |
| Uniforms | 4,329 | 9,128 | - | 146 | 1,652 | 15,255 | 13,221 |
| Utilities | 119,949 | 90,692 | 13,536 | 8,769 | 52,058 | 285,004 | 264,103 |
| Total operating expenses | 1,138,989 | 2,038,809 | 141,583 | 88,567 | 277,552 | 3,685,500 | 3,453,524 |
| Club operating (loss), net | \$ (427,360) | \$ (833,317) | \$ (74,372) | \$ (50,233) | \$ (228,135) | \$ (1,613,417) | \$ (1,548,045) |

(See Auditors' Report)

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
SCHEDULE OF OTHER OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | Totals | | | | |
|---------------------------------------|-------------------|---------------------|-------------------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2012 |
| Expenses: | | | | | |
| Advertising | \$ - | \$ - | \$ - | \$ - | \$ 49,212 |
| Automobile | - | - | - | 2,610 | 2,260 |
| Contract services | - | - | - | - | 24,826 |
| Credit card discounts | - | - | - | - | 18,304 |
| Depreciation | 62,885 | 151,392 | - | 9,777 | 210,027 |
| Dues and subscriptions | - | 2,286 | - | - | 2,286 |
| Employee benefits and payroll taxes | 80,660 | 57,657 | 25,716 | 8,135 | 319,662 |
| Entertainment | - | 2,638 | - | 20,255 | - |
| Freight | - | 1,204 | - | - | 2,638 |
| Gas and oil | 9,009 | - | - | - | 1,204 |
| Insurance | 20,283 | 220,559 | 3,243 | 8,865 | 17,874 |
| Interest | - | - | - | 2,845 | 249,345 |
| Miscellaneous | 1,024 | 35,007 | 1,391 | 378 | 2,455 |
| Office supplies and postage | 245 | 39,264 | 13,036 | - | 91 |
| Professional fees | - | 311,010 | 27,764 | 1,219 | 55,027 |
| Rental and lease | 11,676 | 10,547 | - | - | 408,078 |
| Repairs and maintenance | 5,089 | 14,777 | - | - | 22,223 |
| Salaries | 299,642 | 223,768 | 117,231 | 85,060 | 57,293 |
| Security lights | - | 19,933 | - | 72,770 | 555,606 |
| Small tools | 2,033 | 426 | - | - | 1,346,560 |
| Supplies | 931 | 2,708 | 7,534 | 270 | 130,849 |
| Taxes and licenses | 298 | 33,788 | - | 5 | 5,884 |
| Telephone | 4,195 | 14,292 | - | 287 | 14,278 |
| Travel | 49 | 5,737 | - | 1,416 | 26,823 |
| Uniforms | 2,115 | 85 | - | - | 21,525 |
| Utilities | 11,085 | 74,548 | - | 1,194 | 3,845 |
| Total other operating expenses | \$ 511,219 | \$ 1,347,363 | \$ 195,915 | \$ 193,457 | \$ 3,714,949 |
| | | | \$ 110,864 | \$ 2,358,818 | \$ 86,827 |

(See Auditors' Report)