

**DIAMONDHEAD COUNTRY CLUB AND  
PROPERTY OWNERS ASSOCIATION, INC.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2017**



**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
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**DECEMBER 31, 2017**

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ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC  
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC  
Wealth Management

## INDEPENDENT AUDITORS' REPORT

March 28, 2019

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

We have audited the accompanying financial statements of Diamondhead Country Club and Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses, and changes in members' equity 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 Diamondhead Country Club and Property Owners Association, Inc. as of December 31, 2017, and the results of its operations and its cash flows for the year 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 Schedule of Other Operating Expenses are presented for purposes of additional analysis and are not required parts 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, which 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 this missing information.

*Alexander, Van Loon, Sloan, Levins, & Favre, PLLC*

**ALEXANDER, VAN LOON, SLOAN, LEVINS & FAVRE, PLLC**  
**Certified Public Accountants**  
**Gulfport, Mississippi**

## **FINANCIAL STATEMENTS**

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2017**

**ASSETS**

**CURRENT ASSETS**

Cash, undesignated	\$ 949,940
Certificates of deposit	510,820
Member assessments receivable, net of allowance for uncollectible balance of \$2,714,825	161,409
Other receivables	46,325
Inventories	157,583
Lot inventory	798,354
Prepaid expenses	51,373
Total current assets	2,675,804

**NONCURRENT ASSETS**

Deferred income tax, net	827,475
Property and equipment, net	8,530,913
Total noncurrent assets	9,358,388

**TOTAL ASSETS**

**\$ 12,034,192**

**LIABILITIES AND MEMBERS' EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$ 203,376
Credit cards payable	77,223
Accrued liabilities	119,149
Accrued compensated absences	71,056
Customer overpayments on account	131,463
Deferred revenue	155,135
Capital lease payable	57,829
Total current liabilities	815,231

**LONG-TERM LIABILITIES**

Capital lease payable, net of current maturities	123,054
Total liabilities	938,285

**MEMBERS' EQUITY**

Total members' equity	11,095,907
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**TOTAL LIABILITIES AND MEMBERS' EQUITY**

**\$ 12,034,192**

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

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**REVENUES**

**CLUB OPERATIONS**

Sales	\$ 3,377,288
Cost of sales	<u>(861,593)</u>
Gross profit	2,515,695
Operating expenses	<u>3,740,121</u>
Club operating loss	<u>(1,224,426)</u>

**OTHER INCOME**

Member assessments	3,866,436
Bad debts	<u>(333,868)</u>
Member assessments, net	3,532,568
Lot transfer and consolidation fees	226,000
Gain on repossessed lots	13,472
Gain on sale of assets	60,678
Community services	59,442
Rental income	79,610
Interest income	3,298
Miscellaneous	<u>4,512</u>
Total other income	<u>3,979,580</u>

**NET INCOME BEFORE OTHER EXPENSES**

2,755,154

**OTHER OPERATING EXPENSES**

Building maintenance	450,153
Grounds maintenance	486,003
Administration	<u>1,390,492</u>
Total other operating expenses	<u>2,326,648</u>

**INCOME BEFORE PROVISION FOR INCOME TAXES**

428,506

Income tax benefit, net	<u>73,176</u>
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**CHANGE IN MEMBERS' EQUITY**

501,682

**MEMBERS' EQUITY, BEGINNING OF YEAR, restated**

10,594,225

**MEMBERS' EQUITY, END OF YEAR**

\$ 11,095,907

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

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from members and customers	\$ 7,314,883
Cash paid to suppliers and employees	(5,953,049)
Interest income	3,298
	<u>1,365,132</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Payment for construction and purchase of property and equipment	(908,332)
Proceeds from sale of equipment	147,001
Proceeds from certificates of deposit	509,602
Purchase of certificates of deposit	(510,820)
	<u>(762,549)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal payments on capital leases	(181,888)
	<u>(181,888)</u>

**NET INCREASE IN CASH**

420,695

Cash, January 1

529,245

Cash, December 31

\$ 949,940

**NON CASH INVESTING AND FINANCING TRANSACTIONS**

Assets acquired through capital lease

\$ 339,602



**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**RECONCILIATION OF NET INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Change in members' equity	<u>\$ 501,682</u>
Adjustments to reconcile change in members' equity to net cash provided by operating activities:	
Depreciation expense	871,452
Bad debts	333,868
Gain on sale of equipment	(60,678)
(Increase) decrease in assets:	
Member assessments receivable	(329,328)
Other receivables	(44,618)
Inventory	(10,450)
Lot inventory	(15,555)
Prepaid expenses	56,209
Deferred income tax	(73,176)
Increase (decrease) in liabilities:	
Accounts payable	(14,629)
Credit cards payable	77,223
Accrued expenses	3,618
Deferred revenue	(53,832)
Customer overpayments on account	131,463
Accrued compensated absences	<u>(8,117)</u>
Total adjustments	<u>863,450</u>
Net cash provided by operating activities	<u><u>\$ 1,365,132</u></u>

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

**NOTES TO FINANCIAL STATEMENTS**

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

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 6, 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. Member assessments receivable at the balance sheet date represent fees due from property owners. The Association's policy is to place and enforce liens on properties of members whose assessments become delinquent, where applicable (see Note 2). 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 \$2,500 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized, except for improvements under the provisions of FASB ASC 972-360-25 which allows certain 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.

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.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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**

Employees earn a vested right to compensation for unused vacation absences. Accordingly, the estimated cost of vacation pay earned, but not used by the Association's employees has been recorded and included as accrued expenses on the balance sheet.

**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 membership 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 35% that are applied to net taxable income. For tax year 2018, a flat 21% will be applicable to federal Form 1120.

The Association is exempt from state income tax.

The Association's evaluation as of December 31, 2017 revealed no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The 2014 through 2016 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.

**Cash and Cash Equivalents**

For the purposes of the statement of cash flows, the Association considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Common Facilities**

The Corporation's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Corporation has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future, nor has the board of directors developed a plan to fund those needs. When funds are required for major repairs and replacements, the Corporation plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

**Prepaid Expenses**

Prepaid expenses include payments to vendors and service providers that benefit periods beyond December 31, 2017.

**NOTE 2 – MEMBER ASSESSMENTS RECEIVABLE**

At December 31, 2017, net member assessments receivable consists of the following:

Member assessments receivable	\$ 2,876,234
Less: allowance for uncollectible balances	<u>(2,714,825)</u>
Member assessments receivable, net	<u>\$ 161,409</u>

Member 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 receivables 90 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.

**NOTE 3 – LOT INVENTORY**

Lot inventory represents lots repossessed for non-payment of membership dues. These lots are valued at fair value less estimated costs to sell at the date of transfer which is approximately 15%. As of December 31, 2017, the net realizable value totals \$798,354 and is included on the balance sheet. See Note 4 for fair value measurement.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 4 – FAIR VALUE MEASUREMENT**

Fair value of an asset measured at December 31, 2017 is as follows:

	<u>Fair Value Measurements at the End of the Reporting Period Using</u>			<u>Current Year Gains</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Nonrecurring fair value measurement</u>				
Lot inventory - held for sale	\$ -	\$ 939,240	\$ -	\$ 13,472

Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. The Association has no assets being valued in Level 1 or Level 3.

The lot inventory – held for sale consists of repossessed lots for non-payment of membership dues. The fair value is based on the tax assessed values. Such values are then reduced by the estimated cost to dispose, currently estimated at 15% of fair value. There were changes in the valuation techniques during the year ending December 31, 2017. In the previous years, lot inventory was being valued at the lesser of fair value or the member’s receivable balance at the time of repossession. See Note 13 for the prior period adjustment.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31, 2017:

	<u>2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>2017</u>
Building and improvements	\$ 11,143,064	\$ -	\$ -	\$(1,980,924)	\$9,162,140
Equipment	2,226,445	164,439	(307,799)	344,923	2,428,008
Furniture and fixtures	626,525	-	-	440,803	1,067,328
Cars and trucks	501,812	-	-	(253,319)	248,493
Computers and software	325,277	-	-	(131,213)	194,064
Land improvements	-	-	-	2,905,885	2,905,885
Land	107,553	-	-	-	107,553
Construction in progress	<u>336,182</u>	<u>1,167,675</u>	<u>(84,182)</u>	<u>(1,326,155)</u>	<u>93,520</u>
Total	15,266,858	<u>\$ 1,332,114</u>	<u>\$(391,981)</u>	<u>\$ -</u>	16,206,991
Less: accumulated depreciation	<u>(7,026,104)</u>				<u>(7,676,078)</u>
Property and equipment, net	<u>\$ 8,240,754</u>				<u>\$8,530,913</u>

Depreciation expense booked for the year ended December 31, 2017 was \$871,452.

Construction in progress at December 31, 2017 consists of projects related to the development of two new tennis courts and dredging of canals.

**NOTE 6 - 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 infrastructure were transferred to the City as part of an agreement between the City of Diamondhead and the Association. The Association is required to maintain the common facilities. If the decision is made to dispose of any of the common facilities, Purcell Corporation has the first right of refusal.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 7 - INCOME TAXES**

The provision for income tax arising from timing differences for the year ended December 31, 2017 is as follows:

Current tax benefit	\$ 135,059
Deferred tax expense	<u>(61,883)</u>
	<u>\$ 73,176</u>

The components of net deferred tax asset are as follows:

Deferred tax liabilities:	
Temporary depreciation differences	\$ (971,858)
Temporary differences in gain on repossessed lots	<u>(127,466)</u>
Total deferred tax liabilities	<u>(1,099,324)</u>
Deferred tax assets:	
Temporary differences in using cash basis for tax purposes	124,574
Net operating loss carryover, net of valuation allowance of \$1,802,225	<u>1,802,225</u>
Total deferred tax assets	<u>1,926,799</u>
Net deferred tax asset	<u>\$ 827,475</u>

The valuation allowance is based on fifty percent of the net operating loss carryover. This allowance changed by an increase of \$540,236 from December 31, 2016.

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, 2017, the Association had net operating loss carryforwards totaling approximately \$14,417,802 expiring in various years through 2037.

**NOTE 8 - EMPLOYEE RETIREMENT PLANS**

The Association sponsors a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code covering substantially all employees. The plan provides for participating employees to make elective deferral contributions in any amount up to the maximum amount allowed by the Internal Revenue Code. The Association makes a matching contribution equal to 50% of salary deferrals, up to 10% of the employee's compensation, with a maximum of \$4,000 per plan year. Employer matching contributions in the amount of \$26,722 were made for the year ending December 31, 2017.



**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 9 – 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.

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters for which the Company carries commercial insurance.

**NOTE 10 - LINE OF CREDIT**

The Association maintains a \$900,000 unsecured line of credit. At December 31, 2017, the Association has no outstanding balance. The line of credit bears variable interest and expired August 20, 2018. Upon expiration, the line of credit was renewed for a 12 month term.

**NOTE 11 - CONCENTRATIONS OF CREDIT RISK**

The Association maintains cash balances at one financial institution, which at times may exceed the federally insured limit of \$250,000. At December 31, 2017, the Association's uninsured cash balances total \$1,131,351.

**NOTE 12 – LEASES**

**Operating Leases**

The Association negotiated a lease with Silver Slipper Casino Venture, LLC (Silver Slipper) to lease its waterfront restaurant within the Diamondhead Development. The initial lease dated August 25, 2008, calls for an initial term of ten years with two additional ten 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 years. In November 2012, a request from Silver Slipper to cease business at the restaurant was approved. In addition, an agreement with Silver Slipper was reached regarding the completion of the seven 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.

Minimum annual rentals for years subsequent to 2017 are as follows:

2018	\$ 15,000
2019	<u>15,000</u>
	<u>\$ 30,000</u>

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 12 – LEASES (Continued)**

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 commenced on January 1, 2013 and ends on March 31, 2018. The rent is \$4,000 per month with the option for two additional five year terms at a rent to be negotiated upon exercising such option. On November 8, 2018, the option to renew the lease for another five years was exercised. Rent increased to \$5,000 per month upon renewal.

Minimum annual rentals for years subsequent to 2017 are:

2018	\$ 57,000
2019	60,000
2020	60,000
2021	60,000
2022	60,000
2023	<u>15,000</u>
Total	<u>\$ 312,000</u>

Rental income for the year ended December 31, 2017 totals \$79,610.

**Capital Lease**

The Association leases golf course equipment and golf carts under capital leases. The golf carts are leased for a term of 48 months beginning May 4, 2017. The golf equipment is leased for a term of 36 months beginning November 12, 2015. 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 assets are amortized over their productive lives.

The following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2017:

2018	\$ 65,852
2019	54,324
2020	54,324
2021	<u>22,635</u>
Net minimum lease payments	197,135
Less: amount representing interest	<u>(16,252)</u>
Present value of minimum lease payments	<u>\$ 180,883</u>

Lease payments for operating and capital leases during the year ended December 31, 2017 total \$181,905.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**NOTE 12 – LEASES (Continued)**

The following is an analysis of the leased assets included in property and equipment:

Equipment	\$ 375,114
Less: accumulated amortization	<u>(71,655)</u>
Equipment, net	<u>\$ 303,459</u>

Amortization of assets held under capital leases is included with depreciation expense.

**NOTE 13 – PRIOR PERIOD ADJUSTMENT**

Members' equity at the beginning of fiscal year 2017 has been adjusted for a net amount of \$338,748. The adjustments relate to compensated absences that were previously overstated, underestimated allowance for uncollectible accounts, and undervalued repossessed lot inventory. The net effect of the adjustments results in a decrease in accrued compensated absences, an increase in allowance for uncollectible accounts, an increase in lot inventory, and a decrease in members' equity.

	As Previously Stated	As Restated	Effect of Correction
Compensated absences	\$ (160,953)	\$ (79,173)	\$ 81,780
Allowance for bad debts	\$ (1,722,112)	\$ (2,638,976)	\$ (916,864)
Repossessed lot inventory	\$ 286,463	\$ 782,799	\$ 496,336
Members' equity	\$ 10,932,973	\$ 10,594,225	\$ (338,748)

**NOTE 14 – COMMITMENTS**

As of December 31, 2017, the Association remains obligated to pay outstanding contract commitments totaling \$118,675. These commitments relate to unfinished capital projects.

**NOTE 15 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 28, 2019, which is the date the financial statements were available to be issued.

During 2018, the Board of Directors approved capital improvements totaling \$121,795. Improvements were related to completion of tennis court walkways, replacement of an air conditioning system at a restaurant building, paving of east recreation parking, and emergency repair of the Cardinal Pump Station.

The Association entered into an agreement to sell approximately 29.174 acres of land to Elliott Land Developments for the purpose of developing a subdivision.

**SUPPLEMENTARY INFORMATION**

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**SCHEDULE OF CLUB OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Food & Beverage	Golf	Tennis	Marina	Recreation	Total
<b>Sales</b>	\$ 1,500,639	\$ 1,662,208	\$ 88,408	\$ 77,620	\$ 48,413	\$ 3,377,288
<b>Cost of sales</b>	(617,945)	(196,126)	-	(27,045)	(20,477)	(861,593)
<b>Gross profit</b>	882,694	1,466,082	88,408	50,575	27,936	2,515,695
<b>Expenses</b>						
Advertising	6,752	5,877	-	-	50	12,679
Automobile	2,338	2,987	187	-	293	5,805
Bank fees	25	25	-	-	25	75
Casual labor	441	-	705	-	-	1,146
Credit card discounts	26,122	14,676	-	528	766	42,092
Depreciation	32,391	342,786	46,598	65,895	82,299	569,969
Dues and subscriptions	2,635	8,390	290	-	100	11,415
Entertainment	59,364	154	-	-	-	59,518
Freight	-	1,804	-	-	-	1,804
Gas and oil	-	31,663	-	-	-	31,663
Handicap fees	-	5,200	-	-	-	5,200
Insurance	954	2,197	206	3,484	4,546	11,387
Miscellaneous	203	164	17,253	-	479	18,099
Office supplies and postage	2,236	8,384	130	66	631	11,447
Promotional	4,211	17	-	-	-	4,228
Rental and lease	849	9,766	-	83	190	10,888
Repairs and maintenance	33,462	84,886	4,015	6,506	14,467	143,336
Salaries and related	907,239	961,462	97,218	47,808	157,740	2,171,467
Security lights	2,380	-	-	-	-	2,380
Small tools	4,318	17,583	184	-	10,271	32,356
Supplies	93,713	150,268	516	1,486	40,623	286,606
Taxes and licenses	6,570	308	-	-	-	6,878
Telephone	1,568	656	74	634	186	3,118
Travel	1,186	4,259	-	-	582	6,027
Uniforms	3,100	7,846	-	-	866	11,812
Utilities	106,287	57,798	17,476	11,837	85,328	278,726
<b>Total operating expenses</b>	1,298,344	1,719,156	184,852	138,327	399,442	3,740,121
<b>Club operating loss</b>	<u>\$ (415,650)</u>	<u>\$ (253,074)</u>	<u>\$ (96,444)</u>	<u>\$ (87,752)</u>	<u>\$ (371,506)</u>	<u>\$ (1,224,426)</u>

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

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.**  
**SCHEDULE OF OTHER OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Building Maintenance</u>	<u>Grounds Maintenance</u>	<u>Administration</u>	<u>Total</u>
<b>Expenses</b>				
Automobile	\$ 242	\$ 242	\$ 331	\$ 815
Bank fees	31	-	13,341	13,372
Contract services	-	-	40,322	40,322
Credit card discounts	-	-	8,095	8,095
Depreciation	53,547	177,476	70,461	301,484
Dues and subscriptions	-	-	1,983	1,983
Freight	-	-	25	25
Gas and oil	12,571	4,091	-	16,662
Insurance	1,995	-	200,542	202,537
Miscellaneous	184	-	2,742	2,926
Office supplies and postage	-	-	15,155	15,155
Professional fees	-	-	207,743	207,743
Promotional	-	-	78,488	78,488
Rental and lease	168	-	387	555
Repairs and maintenance	22,850	12,865	39,182	74,897
Salaries and related	314,572	259,394	615,603	1,189,569
Security lights	-	-	11,502	11,502
Small tools	4,032	2,838	2,184	9,054
Supplies	1,799	18,208	22,067	42,074
Taxes and licenses	26,562	527	21,046	48,135
Telephone	2,277	-	13,917	16,194
Travel	-	-	5,172	5,172
Uniforms	960	260	-	1,220
Utilities	8,363	10,102	20,204	38,669
Total other operating expenses	<u>\$ 450,153</u>	<u>\$ 486,003</u>	<u>\$ 1,390,492</u>	<u>\$ 2,326,648</u>

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