

**DIAMONDHEAD COUNTRY CLUB AND
PROPERTY OWNERS ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**



DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
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DECEMBER 31, 2019 AND 2018

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Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
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INDEPENDENT AUDITORS' REPORT

August 26, 2020

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 sheets as of December 31, 2019 and 2018, 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 auditors' 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 auditors consider 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.

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

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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were 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 supplementary information on 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 this missing information.

Alexander Van Loon, Sloan, Levens, & Favre, PLLC
ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

FINANCIAL STATEMENTS

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash, undesignated	\$ 1,107,628	\$ 802,797
Certificates of deposit	-	518,240
Member assessments receivable, net of allowances for uncollectible balances of \$3,104,433 and \$2,824,278, respectively	278,800	308,858
Other receivables	59,670	57,046
Inventories	155,366	170,948
Lot inventory	775,064	798,354
Prepaid expenses	77,002	53,678
Total current assets	2,453,530	2,709,921
NONCURRENT ASSETS		
Property and equipment, net	8,004,221	8,441,203
TOTAL ASSETS	\$ 10,457,751	\$ 11,151,124

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 187,914	\$ 207,172
Credit cards payable	51,683	55,601
Accrued liabilities	179,786	176,259
Accrued compensated absences	109,797	92,692
Customer overpayments on account	151,433	116,633
Deferred revenue	394,658	295,380
Capital lease payable, current	51,442	49,030
Total current liabilities	1,126,713	992,767
LONG-TERM LIABILITIES		
Capital lease payable, net of current maturities	26,750	74,007
Deferred income tax, net	746,625	833,644
Total long-term liabilities	773,375	907,651
TOTAL LIABILITIES	1,900,088	1,900,418
MEMBERS' EQUITY		
Total members' equity	8,557,663	9,250,706
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 10,457,751	\$ 11,151,124

The accompanying notes are an integral part of these 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, 2019 AND 2018

	2019	2018
REVENUES		
CLUB OPERATIONS		
Sales	\$ 3,557,951	\$ 3,385,521
Cost of sales	(920,568)	(892,304)
Gross profit	2,637,383	2,493,217
Operating expenses	4,962,264	4,182,383
Club operating loss	(2,324,881)	(1,689,166)
OTHER INCOME		
Member assessments	3,806,832	3,772,606
Bad debts	(311,166)	(287,759)
Member assessments, net	3,495,666	3,484,847
Lot transfer and consolidation fees	139,209	232,403
Gain on repossessed lots	19,950	12,177
Gain on sale of assets	-	10,142
Community services	66,407	53,034
Rental income	93,405	89,390
Interest income	11,220	9,901
Miscellaneous	9,268	13,719
Total other income	3,835,125	3,905,613
NET INCOME BEFORE OTHER EXPENSES	1,510,244	2,216,447
OTHER OPERATING EXPENSES		
Building maintenance	405,453	589,003
Grounds maintenance	337,441	352,404
Administration	1,547,412	1,459,122
Total other operating expenses	2,290,306	2,400,529
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(780,062)	(184,082)
Income tax (expense) benefit, net	87,019	151,816
CHANGE IN MEMBERS' EQUITY	(693,043)	(32,266)
MEMBERS' EQUITY, BEGINNING OF YEAR	9,250,706	9,282,972
MEMBERS' EQUITY, END OF YEAR	\$ 8,557,663	\$ 9,250,706

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

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and customers	\$ 7,523,418	\$ 7,226,159
Cash paid to suppliers, employees, and others	(7,244,003)	(6,485,742)
Interest income	11,220	9,901
Proceeds from sale of lots	43,240	12,177
Net cash provided by operating activities	<u>333,875</u>	<u>762,495</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for construction and purchase of property and equipment	(502,439)	(854,514)
Proceeds from insurance settlement	-	10,142
Proceeds from certificates of deposit	518,240	511,432
Purchase of certificates of deposit	-	(518,852)
Net cash provided by (used in) investing activities	<u>15,801</u>	<u>(851,792)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital leases	(44,845)	(57,846)
Net cash used in financing activities	<u>(44,845)</u>	<u>(57,846)</u>
NET INCREASE (DECREASE) IN CASH	304,831	(147,143)
Cash, January 1	<u>802,797</u>	<u>949,940</u>
Cash, December 31	<u><u>\$ 1,107,628</u></u>	<u><u>\$ 802,797</u></u>

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in members' equity	<u>\$ (693,043)</u>	<u>\$ (32,266)</u>
Adjustments to reconcile change in members' equity to net cash provided by operating activities:		
Depreciation expense	939,421	944,224
Bad debts	311,166	287,759
Proceeds from insurance settlement	-	(10,142)
(Increase) decrease in assets:		
Member assessments receivable	(281,108)	(435,208)
Other receivables	(2,624)	(10,721)
Inventories	15,582	(13,365)
Lot inventory	23,290	-
Prepaid expenses	(23,324)	(2,305)
Deferred income tax	(87,019)	(151,816)
Increase (decrease) in liabilities:		
Accounts payable	(19,258)	3,796
Credit cards payable	(3,918)	(21,622)
Accrued liabilities	3,527	57,110
Deferred revenue	99,278	140,245
Customer overpayments on account	34,800	(14,830)
Accrued compensated absences	17,105	21,636
Total adjustments	<u>1,026,918</u>	<u>794,761</u>
Net cash provided by operating activities	<u><u>\$ 333,875</u></u>	<u><u>\$ 762,495</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 YEARS ENDED DECEMBER 31, 2019 AND 2018

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 represents 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 YEARS ENDED DECEMBER 31, 2019 AND 2018

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 files federal Form 1120, which has a flat tax rate of 21% that was applied to the net taxable income for tax years 2018 and 2019.

The Association is exempt from state income tax.

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.

New Accounting Pronouncement

In 2019, the Association adopted the following new Accounting Standards Updates issued by the Financial Accounting Standards Board (FASB), all retrospectively.

Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and related subsequent Accounting Standards Updates provides guidance for entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

FASB Accounting Standards Updates 2016-15, *Statement of Cash Flows (Topic 230)* provides guidance on certain specific cash flow issues and reduces diversity in practice. FASB Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230)* requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

There were no material impacts on the Association's results of operations or financial condition upon adoption of the new standards, and accordingly, no adjustments have been made as a result of adoption of the new standards.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. There were no cash equivalents as of December 31, 2019 or 2018.

Common Facilities

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association 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 Association 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, 2019 and 2018.

NOTE 2 – MEMBER ASSESSMENTS RECEIVABLE

Net member assessments receivable consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Member assessments receivable	\$ 3,383,233	\$ 3,133,136
Less: allowance for uncollectible balances	<u>(3,104,433)</u>	<u>(2,824,278)</u>
Member assessments receivable, net	<u>\$ 278,800</u>	<u>\$ 308,858</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 61 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
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, the net realizable value totals \$775,064 and \$798,354, respectively, and is included on the balance sheet. See Note 4 for fair value measurement.

NOTE 4 – FAIR VALUE MEASUREMENT

Fair value of an asset measured at December 31, 2019 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	\$ -	\$ 911,840	\$ -	\$ 19,950

Fair value of an asset measured at December 31, 2018 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	\$ -	\$ 12,177

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

The Association has no assets being valued in Level 1 or Level 3.

Lot inventory – held for sale is being valued in Level 2 with significant other observable inputs. These lots for sale consist of lots repossessed 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.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2018	Additions	Disposals	Transfers	2019
Building and improvements	\$ 9,659,177	\$ -	\$ -	\$ 252,069	\$ 9,911,246
Equipment	2,690,722	-	-	163,592	2,854,314
Furniture and fixtures	1,067,328	-	-	-	1,067,328
Cars and trucks	228,227	-	-	-	228,227
Computers and software	194,064	-	-	86,146	280,210
Land improvements	3,049,212	-	-	-	3,049,212
Land	107,553	-	-	-	107,553
Construction in progress	44,956	502,439	-	(501,807)	45,588
Total	17,041,239	\$ 502,439	\$ -	\$ -	17,543,678
Less: accumulated depreciation	(8,600,036)				(9,539,457)
Property and equipment, net	<u>\$ 8,441,203</u>				<u>\$ 8,004,221</u>
	2017	Additions	Disposals	Transfers	2018
Building and improvements	\$ 9,162,140	\$ -	\$ -	\$ 497,037	\$ 9,659,177
Equipment	2,428,008	-	(3,362)	266,076	2,690,722
Furniture and fixtures	1,067,328	-	-	-	1,067,328
Cars and trucks	248,493	-	(20,266)	-	228,227
Computers and software	194,064	-	-	-	194,064
Land improvements	2,905,885	-	-	143,327	3,049,212
Land	107,553	-	-	-	107,553
Construction in progress	93,520	919,557	(61,681)	(906,440)	44,956
Total	16,206,991	\$ 919,557	\$ (85,309)	\$ -	17,041,239
Less: accumulated depreciation	(7,026,104)				(8,600,036)
Property and equipment, net	<u>\$ 9,180,887</u>				<u>\$ 8,441,203</u>

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

Depreciation expense for the years ending December 31, 2019 and 2018 totals \$939,421 and \$944,224, respectively.

Construction in progress at December 31, 2019 consists of projects related to the dredging of canals and the renovation of the facilities building.

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.

NOTE 7 - INCOME TAXES

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

	<u>2019</u>	<u>2018</u>
Current tax benefit (expense)	\$ 36,686	\$ (47,207)
Deferred tax benefit (expense)	50,333	41,349
Enactment of new tax law benefit	-	157,674
Net income tax benefit (expense)	<u>\$ 87,019</u>	<u>\$ 151,816</u>

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 7 - INCOME TAXES (Continued)

The reconciliation of financial statement income before income taxes to taxable income with statutory rates is summarized as follows:

	<u>2019</u>	<u>2018</u>
Income (loss) before income taxes	\$ (780,062)	\$ (184,082)
Permanent differences:		
Travel and entertainment	<u>17,666</u>	<u>15,130</u>
Net taxable book income (loss)	<u>\$ (762,396)</u>	<u>\$ (168,952)</u>
Tax Reconciliation:		
Tax benefit (expense) at statutory rates	160,103	35,480
Enactment of new tax law benefit	-	157,674
Prior year deferred tax adjustment	(25,111)	-
Valuation allowance for NOL	(36,686)	(41,349)
Variance	<u>(11,287)</u>	<u>11</u>
Total current year tax	<u>\$ 87,019</u>	<u>\$ 151,816</u>

The components of net deferred tax asset (liability) are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax liabilities:		
Temporary depreciation differences	\$ (814,949)	\$ (876,665)
Temporary differences in basis for repossessed lots	<u>(115,331)</u>	<u>(107,060)</u>
Total deferred tax liabilities	<u>(930,280)</u>	<u>(983,725)</u>
Deferred tax assets:		
Temporary differences in using cash basis for tax purposes	95,904	73,904
Net operating loss carryover (NOL)	175,503	152,354
Less valuation allowance	<u>(87,752)</u>	<u>(76,177)</u>
Total deferred tax assets	<u>183,655</u>	<u>150,081</u>
Net deferred tax asset (liability)	<u>\$ (746,625)</u>	<u>\$ (833,644)</u>

The valuation allowance is based on fifty percent of the net operating loss carryover. This allowance changed by an increase of \$174,696 from December 31, 2018.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 7 - INCOME TAXES (Continued)

At December 31, 2019 and 2018, the Association had net operating loss carryforwards totaling approximately \$835,730 and \$486,338, respectively. Net operating losses generated prior to 2018 will expire in 2037. Net operating losses generated subsequent to 2018 can be carried forward indefinitely.

NOTE 8 – CONTRACT REVENUE RECOGNITION

The Association receives contract revenue related to memberships for the property owners association (POA) and golf course memberships. The POA membership provides services for operations of amenities and maintenance through repairs and replacements. These memberships are not optional for residents and they are not cancellable. The golf course memberships provide services for operations and maintenance of the golf course and provides members with access to the course. The Association considers the performance obligation for the POA membership to be one that includes managing the common areas. Since these occur on a routine basis, the performance obligation is deemed to be met monthly. For the golf course membership, the Association considers services as one performance obligation of maintaining and providing use of the golf course and as being met monthly. Payments received in advance of the monthly performance obligations are recorded in deferred revenue. Deferred revenue as of December 31, 2019 and 2018 totals \$394,658 and \$295,380, respectively, and is included on the balance sheets. Revenue recognized on contracts for member assessments for the years ended December 31, 2019 and 2018 totals \$3,495,666 and \$3,484,847, respectively, and is included on the statements of revenues, expenses and changes in members' equity. Revenue recognized on contracts for golf course memberships for the years ended December 31, 2019 and 2018 totals \$661,180 and \$651,900, respectively, and is included in sales on the statements of revenues, expenses and changes in members' equity.

In retrospectively implementing Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), there were no adjustments deemed necessary for the effect of initial application.

NOTE 9 - 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 \$26,979 and \$26,351 were made for the years ending December 31, 2019 and 2018, respectively.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 10 – 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 Association carries commercial insurance.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

The Association maintains all cash balances at one financial institution, which at times may exceed the federally insured limit of \$250,000. At December 31, 2019 and 2018, the Association's uninsured cash balances total \$768,681 and \$995,653, respectively.

NOTE 12 – LEASES

Operating Lease

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 2019 are:

2020	\$	60,000
2021		60,000
2022		60,000
2023		<u>15,000</u>
Total	\$	<u>195,000</u>

Rental income for the years ended December 31, 2019 and 2018 totals \$93,405 and \$89,390, respectively.

Capital Lease

The Association leases golf carts under a capital lease. The golf carts are leased for a term of 48 months beginning May 4, 2017 and maturing May 4, 2021. The asset and liability under the capital lease are recorded at the present value of the minimum lease. The assets are amortized over their productive lives.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 12 – LEASES (Continued)

Capital Lease (Continued)

The following is a schedule by years of the future minimum lease payments with the present value of the net minimum lease payments as of December 31, 2019:

2020	\$	54,324
2021		<u>27,162</u>
Net minimum lease payments		81,486
Less: amount representing interest		<u>(3,294)</u>
Present value of minimum lease payments	\$	<u><u>78,192</u></u>

Lease payments for capital leases during the years ended December 31, 2019 and 2018 total \$44,845 and \$57,829, respectively.

The following is an analysis of the leased assets included in property and equipment at December 31:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 339,602	\$ 339,602
Less: accumulated amortization	<u>(186,781)</u>	<u>(118,861)</u>
Equipment, net	<u><u>\$ 152,821</u></u>	<u><u>\$ 220,741</u></u>

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

NOTE 13 – RELATED PARTY TRANSACTIONS

The Association has contracted security services provided by a security company owned by a board member. During the fiscal years ended December 31, 2019 and 2018, the Association paid the security company \$27,920 and \$21,000, respectively, for security services.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 26, 2020, which is the date the financial statements were available to be issued.

Beginning in 2020, certain expirations of covenants could affect the Association's ability to enforce the collection of dues.

**DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 14 – SUBSEQUENT EVENTS (Continued)

The covenant expirations impact the Association’s lien rights. The schedule of affected lots and dues are as follows:

<u>Expiration by Year</u>	<u>Number of Lots Affected</u>	<u>Amounts</u>
2020	905	\$ 287,790
2021	1480	\$ 472,654
2022	1289	\$ 343,493
2023	726	\$ 345,348
2025	213	\$ 67,734
2029	37	\$ 10,070

The Association is currently working on a resolution to keep the rights and dues structured for continued operations.

Subsequent to year end, a novel strain of coronavirus (COVID-19) spread across the world and was declared a pandemic by the World Health Organization on March 11, 2020. As a result of the spread of COVID-19, economic uncertainties have arisen. The extent of the impact of COVID-19 on operational and financial performance will depend on the duration and spread of the outbreak. As of the date of this report, the effects are uncertain and cannot be reasonably estimated.

SUPPLEMENTARY INFORMATION

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
SCHEDULE OF CLUB OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Food & Beverage	Golf	Tennis	Marina	Recreation	Total
Sales	\$ 1,662,899	\$ 1,668,585	\$ 71,138	\$ 82,201	\$ 73,128	\$ 3,557,951
Cost of sales	(656,482)	(210,095)	-	(34,630)	(19,361)	(920,568)
Gross profit	1,006,417	1,458,490	71,138	47,571	53,767	2,637,383
Expenses						
Advertising	2,125	3,122	-	-	-	5,247
Automobile	381	762	230	-	2,198	3,571
Bank fees	-	7	-	-	-	7
Casual labor	11,392	14,637	1,320	-	-	27,349
Contract services	-	8,410	-	-	-	8,410
Credit card discounts	32,764	22,592	-	1,120	782	57,258
Depreciation	257,714	325,493	80,132	67,855	157,241	888,435
Discount members	-	71,704	-	-	-	71,704
Dues and subscriptions	485	4,446	314	-	385	5,630
Entertainment	47,019	-	-	-	-	47,019
Freight	-	486	-	-	-	486
Gas and oil	-	36,852	-	-	-	36,852
Insurance	3,713	2,369	225	4,742	5,117	16,166
Interest	-	4,950	-	-	-	4,950
Miscellaneous	-	1,075	13,400	51	551	15,077
Office supplies and postage	3,518	17,208	128	-	1,403	22,257
Professional fees	-	-	-	3,000	-	3,000
Promotional	6,687	3,000	30	77	1,112	10,906
Rental and lease	463	8,945	-	-	-	9,408
Repairs and maintenance	89,344	175,506	4,386	11,504	48,198	328,938
Salaries and related	1,089,724	1,160,704	111,031	54,394	170,311	2,586,164
Security lights	2,269	-	-	-	38	2,307
Small tools	7,130	15,917	7,699	-	1,959	32,705
Supplies	103,887	248,934	158	1,362	44,339	398,680
Taxes and licenses	34,624	1,798	-	433	-	36,855
Telephone	3,138	546	-	365	-	4,049
Travel	51	9,181	-	-	-	9,232
Uniforms	3,418	7,512	-	-	1,590	12,520
Utilities	124,658	71,116	17,607	16,221	87,480	317,082
Total operating expenses	<u>1,824,504</u>	<u>2,217,272</u>	<u>236,660</u>	<u>161,124</u>	<u>522,704</u>	<u>4,962,264</u>
Club operating loss	<u>\$ (818,087)</u>	<u>\$ (758,782)</u>	<u>\$ (165,522)</u>	<u>\$ (113,553)</u>	<u>\$ (468,937)</u>	<u>\$ (2,324,881)</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, 2019

	<u>Building Maintenance</u>	<u>Grounds Maintenance</u>	<u>Administration</u>	<u>Total</u>
Expenses				
Automobile	\$ 381	\$ 381	\$ 667	\$ 1,429
Bank fees	-	-	17,583	17,583
Casual labor	4,650	-	21,633	26,283
Communications	-	-	54,399	54,399
Contract services	-	-	49,089	49,089
Credit card discounts	-	-	9,375	9,375
Depreciation	1,091	25,073	24,823	50,987
Dues and subscriptions	-	-	2,231	2,231
Entertainment	-	-	400	400
Gas and oil	9,430	9,471	-	18,901
Insurance	561	-	176,192	176,753
Miscellaneous	-	-	9,093	9,093
Office supplies and postage	2,270	-	44,730	47,000
Professional fees	1,750	-	203,282	205,032
Promotional	2,538	571	95,903	99,012
Repairs and maintenance	11,830	28,604	61,273	101,707
Salaries and related	349,083	231,591	683,245	1,263,919
Security lights	118	-	11,862	11,980
Small tools	5,383	1,846	652	7,881
Supplies	3,183	30,936	3,867	37,986
Taxes and licenses	312	421	37,491	38,224
Telephone	1,339	-	14,435	15,774
Travel	-	300	7,792	8,092
Uniforms	1,435	564	166	2,165
Utilities	10,099	7,683	17,229	35,011
Total other operating expenses	<u>\$ 405,453</u>	<u>\$ 337,441</u>	<u>\$ 1,547,412</u>	<u>\$ 2,290,306</u>

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