

**DIAMONDHEAD COUNTRY CLUB AND
PROPERTY OWNERS ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**



DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
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DECEMBER 31, 2020 AND 2019

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

INDEPENDENT AUDITORS' REPORT

March 15, 2023

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, 2020 and 2019, 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.

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, 2020 and 2019, 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, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash, undesignated	\$ 1,341,892	\$ 1,107,628
Member assessments receivable, net of allowances for uncollectible balances of \$2,569,246 and \$3,104,433, respectively	1,200,738	278,800
Other receivables	126,105	59,670
Inventories	147,590	155,366
Lot inventory	521,195	775,064
Prepaid expenses	99,668	77,002
Total current assets	<u>3,437,188</u>	<u>2,453,530</u>
NONCURRENT ASSETS		
Property and equipment, net	<u>7,301,457</u>	<u>8,004,221</u>
TOTAL ASSETS	<u><u>\$ 10,738,645</u></u>	<u><u>\$ 10,457,751</u></u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 115,202	\$ 187,914
Credit cards payable	51,718	51,683
Accrued liabilities	94,835	179,786
Accrued compensated absences	137,809	109,797
Customer overpayments on account	375,797	151,433
Deferred revenue	380,027	394,658
Capital lease payable, current	26,750	51,442
Total current liabilities	<u>1,182,138</u>	<u>1,126,713</u>
LONG-TERM LIABILITIES		
Capital lease payable, net of current maturities	-	26,750
Deferred income tax, net	703,436	746,625
Total long-term liabilities	<u>703,436</u>	<u>773,375</u>
TOTAL LIABILITIES	<u>1,885,574</u>	<u>1,900,088</u>
MEMBERS' EQUITY		
Total members' equity	<u>8,853,071</u>	<u>8,557,663</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 10,738,645</u></u>	<u><u>\$ 10,457,751</u></u>

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
REVENUES		
CLUB OPERATIONS		
Sales	\$ 3,356,782	\$ 3,557,951
Cost of sales	<u>(692,981)</u>	<u>(920,568)</u>
Gross profit	2,663,801	2,637,383
Operating expenses	<u>5,012,256</u>	<u>4,962,264</u>
Club operating loss	<u>(2,348,455)</u>	<u>(2,324,881)</u>
OTHER INCOME		
Member assessments	3,863,000	3,806,832
Bad debts	<u>474,606</u>	<u>(311,166)</u>
Member assessments, net	4,337,606	3,495,666
Lot transfer and consolidation fees	40,300	139,209
Gain (loss) on repossessed lots	(231,717)	19,950
Loss on sale of assets	(23,091)	-
Gain on insurance claims	2,420	-
Loan forgiveness	669,900	-
Community services	58,047	66,407
Rental income	77,052	93,405
Interest income	1,086	11,220
Miscellaneous	<u>27,856</u>	<u>9,268</u>
Total other income	<u>4,959,459</u>	<u>3,835,125</u>
NET INCOME BEFORE OTHER EXPENSES	<u>2,611,004</u>	<u>1,510,244</u>
OTHER OPERATING EXPENSES		
Building maintenance	370,561	405,453
Grounds maintenance	282,333	337,441
Administration	<u>1,705,891</u>	<u>1,547,412</u>
Total other operating expenses	<u>2,358,785</u>	<u>2,290,306</u>
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	252,219	(780,062)
Income tax (expense) benefit, net	<u>43,189</u>	<u>87,019</u>
CHANGE IN MEMBERS' EQUITY	295,408	(693,043)
MEMBERS' EQUITY, BEGINNING OF YEAR	<u>8,557,663</u>	<u>9,250,706</u>
MEMBERS' EQUITY, END OF YEAR	<u><u>\$ 8,853,071</u></u>	<u><u>\$ 8,557,663</u></u>

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and customers	\$ 7,121,423	\$ 7,523,418
Cash paid to suppliers, employees, and others	(7,280,900)	(7,244,003)
Interest income	1,086	11,220
Proceeds from sale of lots	<u>22,152</u>	<u>43,240</u>
Net cash provided by (used in) operating activities	<u>(136,239)</u>	<u>333,875</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for construction and purchase of property and equipment	(301,980)	(502,439)
Proceeds from sale of assets	54,025	-
Proceeds from certificates of deposit	<u>-</u>	<u>518,240</u>
Net cash provided by (used in) investing activities	<u>(247,955)</u>	<u>15,801</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Payroll Protection Program	669,900	-
Principal payments on capital leases	<u>(51,442)</u>	<u>(44,845)</u>
Net cash provided by (used in) financing activities	<u>618,458</u>	<u>(44,845)</u>
NET INCREASE IN CASH	234,264	304,831
Cash, January 1	<u>1,107,628</u>	<u>802,797</u>
Cash, December 31	<u><u>\$ 1,341,892</u></u>	<u><u>\$ 1,107,628</u></u>

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in members' equity	<u>\$ 295,408</u>	<u>\$ (693,043)</u>
Adjustments to reconcile change in members' equity to net cash provided by (used in) operating activities:		
Depreciation expense	927,628	939,421
Bad debts	(474,606)	311,166
Payroll Protection Program - loan forgiveness	(669,900)	-
Loss on sale of assets	23,091	-
(Increase) decrease in assets:		
Member assessments receivable	(447,332)	(281,108)
Other receivables	(66,435)	(2,624)
Inventories	7,776	15,582
Lot inventory	253,869	23,290
Prepaid expenses	(22,666)	(23,324)
Deferred income tax	(43,189)	(87,019)
Increase (decrease) in liabilities:		
Accounts payable	(72,712)	(19,258)
Credit cards payable	35	(3,918)
Accrued liabilities	(84,951)	3,527
Deferred revenue	(14,631)	99,278
Customer overpayments on account	224,364	34,800
Accrued compensated absences	<u>28,012</u>	<u>17,105</u>
Total adjustments	<u>(431,647)</u>	<u>1,026,918</u>
Net cash provided by (used in) operating activities	<u><u>\$ (136,239)</u></u>	<u><u>\$ 333,875</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, 2020 AND 2019

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, 2020 AND 2019

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 2019 and 2020.

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.

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, 2020 or 2019.

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.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

Prepaid expenses include payments to vendors and service providers that benefit periods beyond December 31, 2020 and 2019.

NOTE 2 – MEMBER ASSESSMENTS RECEIVABLE

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

	2020	2019	2018
Member assessments receivable	\$ 3,769,984	\$ 3,383,233	\$ 3,133,136
Less: allowance for uncollectible balances	(2,569,246)	(3,104,433)	(2,824,278)
Member assessments receivable, net	<u>\$ 1,200,738</u>	<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.

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, 2020 and 2019, the net realizable value totals \$521,195 and \$775,064, 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, 2020 is as follows:

	Fair Value Measurements at the End of the Reporting Period Using			Current Year Loss
	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	<u>\$ -</u>	<u>\$ 613,171</u>	<u>\$ -</u>	<u>\$ (231,717)</u>

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

Fair value of an asset measured at December 31, 2019 is as follows:

	Fair Value Measurements at the End of the Reporting Period Using			Current Year Gains
	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	<u>\$ -</u>	<u>\$ 911,840</u>	<u>\$ -</u>	<u>\$ 19,950</u>

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. In 2020, the value was reduced lower than the tax assessed values based on current selling prices. Such values are then reduced by the estimated cost to dispose, currently estimated at 15% of fair value.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2019	Additions	Disposals	Transfers	2020
Building and improvements	\$ 9,911,246	\$ -	\$ -	\$ 136,466	\$10,047,712
Equipment	2,854,314	-	(424,634)	111,171	2,540,851
Furniture and fixtures	1,067,328	-	-	-	1,067,328
Cars and trucks	228,227	-	(16,098)	-	212,129
Computers and software	280,210	-	-	-	280,210
Land improvements	3,049,212	-	-	94,946	3,144,158
Land	107,553	-	-	-	107,553
Construction in progress	45,588	360,151	(58,171)	(342,583)	4,985
Total	17,543,678	\$ 360,151	\$ (498,903)	\$ -	17,404,926
Less: accumulated depreciation	(9,539,457)				(10,103,469)
Property and equipment, net	<u>\$ 8,004,221</u>				<u>\$ 7,301,457</u>
	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>

Depreciation expense for the years ending December 31, 2020 and 2019 totals \$927,628 and \$939,421, respectively.

Construction in progress at December 31, 2020 and 2019 consists of projects related to the dredging of canals and the renovation of the facilities building.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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:

	2020	2019
Current tax benefit (expense)	\$ 39,686	\$ 36,686
Deferred tax benefit (expense)	3,503	50,333
Net income tax benefit (expense)	<u>\$ 43,189</u>	<u>\$ 87,019</u>

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

	2020	2019
Income (loss) before income taxes	\$ 252,219	\$ (780,062)
Permanent differences:		
PPP - loan forgiveness	(669,900)	-
Travel and entertainment	13,505	17,666
Net taxable book income (loss)	<u>\$ (404,176)</u>	<u>\$ (762,396)</u>
Tax Reconciliation:		
Tax benefit (expense) at statutory rates	\$ 84,877	\$ 160,103
Prior year deferred tax adjustment	-	(25,111)
Valuation allowance for NOL	(42,438)	(36,686)
Variance	750	(11,287)
Total current year tax	<u>\$ 43,189</u>	<u>\$ 87,019</u>

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 7 - INCOME TAXES (Continued)

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

	2020	2019
Deferred tax liabilities:		
Temporary depreciation differences	\$ (737,379)	\$ (814,949)
Temporary differences in using cash basis for tax purposes	(131,476)	-
Temporary differences in deductible casualty expenses	(11,039)	-
Temporary differences in basis for repossessed lots	(66,296)	(115,331)
Total deferred tax liabilities	(946,190)	(930,280)
Deferred tax assets:		
Temporary differences in using cash basis for tax purposes	-	95,904
Temporary difference in taxability of employee retention credit	115,317	-
Net operating loss carryover (NOL)	254,875	175,503
Less valuation allowance	(127,438)	(87,752)
Total deferred tax assets	242,754	183,655
Net deferred tax asset (liability)	\$ (703,436)	\$ (746,625)

The valuation allowance is based on fifty percent of the net operating loss carryover. This allowance changed by an increase of \$188,981 from December 31, 2019.

At December 31, 2020 and 2019, the Association had net operating loss carryforwards totaling approximately \$1,213,691 and \$835,730, respectively. Net operating losses generated prior to 2018 will expire in 2037. Net operating losses generated in 2018 and after 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 is as follows:

	2020	2019	2018
Deferred revenue	\$ 380,027	\$ 394,658	\$ 295,380

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 8 – CONTRACT REVENUE RECOGNITION (Continued)

Revenue recognized on contracts for member assessments for the years ended December 31, 2020 and 2019 totals \$4,337,606 and \$3,495,666, 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, 2020 and 2019 totals \$806,017 and \$661,180, respectively, and is included in sales on the statements of revenues, expenses and changes in members' equity.

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 \$31,896 and \$26,979 were made for the years ending December 31, 2020 and 2019, respectively.

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, 2020 and 2019, the Association's uninsured cash balances total \$994,298 and \$768,681, respectively.

NOTE 12 – LEASES

Operating Lease Income

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.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 12 – LEASES (Continued)

Operating Lease Income (Continued)

Minimum annual rentals for years subsequent to 2020 are:

2021	\$	60,000
2022		60,000
2023		15,000
Total	\$	<u>135,000</u>

Rental income for the years ended December 31, 2020 and 2019 totals \$77,052 and \$93,405, respectively.

Operating Lease Expense

The Association entered into an agreement for use of 24 pieces of maintenance equipment that is considered an operating lease. The equipment is leased for a term of 48 months beginning March 8, 2020 and maturing March 8, 2024. The annual rent under this operating lease agreement is \$144,488.

The Association entered into an agreement for use of 3 pieces of equipment that is considered an operating lease. The equipment is leased for a term of 48 months beginning February 26, 2020 and maturing February 26, 2024. The annual rent under this operating lease agreement is \$28,811.

The following is a schedule by years of the future minimum lease payments as of December 31, 2020:

2021	\$	173,299
2022		173,299
2023		173,299
2024		57,766
Total	\$	<u>577,663</u>

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, 2020 AND 2019

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, 2020:

2021	\$ 27,162
Net minimum lease payments	27,162
Less: amount representing interest	(412)
Present value of minimum lease payments	<u>\$ 26,750</u>

Lease payments for capital leases during the years ended December 31, 2020 and 2019 total \$51,442 and \$44,845, respectively.

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

	<u>2020</u>	<u>2019</u>
Equipment	\$ 339,602	\$ 339,602
Less: accumulated amortization	<u>(254,702)</u>	<u>(186,781)</u>
Equipment, net	<u>\$ 84,900</u>	<u>\$ 152,821</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, 2020 and 2019, the Association paid the security company \$3,800 and \$27,920, respectively, for security services.

NOTE 14 – RISKS AND UNCERTAINTIES

COVID-19

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 and Association operations have been affected. As of the date of this report, the known effects include; closures and then reopening amenities, administrative burdens, and restrictions on services provided. Any further effects are uncertain and cannot be reasonably estimated.

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 14 – RISKS AND UNCERTAINTIES (Continued)

COVID-19 (Continued)

In response to the financial burdens, the Association took mitigating measures. Under provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, April 14, 2020, the Association received a \$669,900 Paycheck Protection Program (PPP) loan. The PPP loan was obtained through a local financial institution and is 100% guaranteed by the U.S. Small business Administration (SBA). The major terms of the loan are 1% per annum interest rate, first six months payments deferred, with an April 14, 2022 maturity date. Also included in the SBA's PPP loan agreement, is the stipulation that, if certain criteria is met during the six-month deferral period, the loan will be fully forgiven and will be considered revenue. As of December 31, 2020, the Organization had sufficiently met all criteria for the loans to be fully forgiven. The Association received notification of official forgiveness as of May 7, 2021. Therefore, the loan proceeds are recognized as loan forgiveness revenues in the statement of revenues, expenses, and changes in members' equity.

Covenant Expiration

Beginning in 2020, certain expirations of covenants began affecting the Association's ability to enforce the collection of dues. The most significant expirations are in subsequent years.

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 continuing to work on a resolution to keep the rights and dues structured for continued operations.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 15, 2023, which is the date the financial statements were available to be issued.

Litigation was settled in favor of the Association on delinquent dues and assessments owed to the Association totaling \$1,125,000.

SUPPLEMENTARY INFORMATION

DIAMONDHEAD COUNTRY CLUB AND PROPERTY OWNERS ASSOCIATION, INC.
SCHEDULE OF CLUB OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Food & Beverage	Golf	Tennis	Marina	Recreation	Total
Sales	\$ 1,367,146	\$ 1,759,625	\$ 84,222	\$ 93,244	\$ 52,545	\$ 3,356,782
Cost of sales	(487,724)	(162,476)	-	(31,049)	(11,732)	(692,981)
Gross profit	<u>879,422</u>	<u>1,597,149</u>	<u>84,222</u>	<u>62,195</u>	<u>40,813</u>	<u>2,663,801</u>
Expenses						
Advertising	1,811	1,117	-	-	-	2,928
Automobile	301	-	-	-	2,939	3,240
Casual labor	762	416	5,860	-	-	7,038
Contract services	-	7,707	-	-	-	7,707
COVID-19 related	1,527	2,494	132	-	1,021	5,174
Credit card discounts	27,853	15,691	-	938	680	45,162
Depreciation	248,412	318,429	81,084	66,072	148,630	862,627
Discount members	-	142,326	-	-	-	142,326
Dues and subscriptions	636	5,102	299	-	140	6,177
Entertainment	14,200	-	-	-	-	14,200
Freight	-	3	-	-	-	3
Gas and oil	-	29,232	-	-	80	29,312
Insurance	3,761	2,369	230	3,914	5,254	15,528
Miscellaneous	2,047	94	7,626	128	102	9,997
Office supplies and postage	4,044	10,317	248	113	577	15,299
Professional fees	-	3,825	-	625	-	4,450
Promotional	3,266	-	577	-	1,504	5,347
Rental and lease	822	142,015	-	10,800	-	153,637
Repairs and maintenance	40,412	114,498	24,331	8,887	14,427	202,555
Salaries and related	1,117,223	1,267,589	108,209	55,562	184,207	2,732,790
Security lights	318	-	-	-	275	593
Small tools	10,015	5,082	107	439	3,129	18,772
Supplies	69,015	233,372	140	1,605	43,711	347,843
Taxes and licenses	37,363	10,515	-	1,075	149	49,102
Telephone	1,136	1,372	-	366	458	3,332
Travel	-	5,187	219	-	-	5,406
Uniforms	3,867	6,395	-	-	1,184	11,446
Utilities	118,167	74,380	15,844	16,062	85,812	310,265
Total operating expenses	<u>1,706,958</u>	<u>2,399,527</u>	<u>244,906</u>	<u>166,586</u>	<u>494,279</u>	<u>5,012,256</u>
Club operating loss	<u>\$ (827,536)</u>	<u>\$ (802,378)</u>	<u>\$ (160,684)</u>	<u>\$ (104,391)</u>	<u>\$ (453,466)</u>	<u>\$ (2,348,455)</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, 2020

	<u>Building Maintenance</u>	<u>Grounds Maintenance</u>	<u>Administration</u>	<u>Total</u>
Expenses				
Advertising	\$ -	\$ -	\$ 700	\$ 700
Automobile	953	-	768	1,721
Bank fees	-	-	22,321	22,321
Casual labor	3,375	-	18,280	21,655
Communications	-	-	115	115
Contract services	-	-	54,542	54,542
COVID-19 related	3,177	-	2,449	5,626
Credit card discounts	-	-	11,149	11,149
Depreciation	818	24,029	40,154	65,001
Dues and subscriptions	-	1,160	3,746	4,906
Gas and oil	5,852	8,882	-	14,734
Insurance	561	-	194,579	195,140
Interest	-	-	2,879	2,879
Miscellaneous	127	-	38,283	38,410
Office supplies and postage	500	-	34,618	35,118
Professional fees	-	-	244,012	244,012
Promotional	590	691	60,067	61,348
Rental and lease	-	-	5,363	5,363
Repairs and maintenance	8,301	20,817	42,355	71,473
Salaries and related	326,900	199,573	792,402	1,318,875
Security lights	-	32	816	848
Small tools	969	2,120	58,939	62,028
Supplies	4,073	16,966	4,779	25,818
Taxes and licenses	371	356	31,659	32,386
Telephone	2,186	-	9,612	11,798
Travel	-	87	9,941	10,028
Uniforms	769	600	-	1,369
Utilities	11,039	7,020	21,363	39,422
Total other operating expenses	<u>\$ 370,561</u>	<u>\$ 282,333</u>	<u>\$ 1,705,891</u>	<u>\$ 2,358,785</u>

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