

FLAGSTAFF GOLF ASSOCIATION
dba ASPEN VALLEY GOLF CLUB
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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Certified Public Accountants, L.L.P.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Flagstaff Golf Association
dba Aspen Valley Golf Club
Flagstaff, Arizona

We have audited the accompanying financial statements of Flagstaff Golf Association, dba Aspen Valley Golf Club (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of revenues and expenses, changes in membership equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Flagstaff Golf Association, dba Aspen Valley Golf Club as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Guest Schutte & Cospier

Guest, Schutte & Cospier
Flagstaff, AZ 86001

July 25, 2019

FLAGSTAFF GOLF ASSOCIATION
 dba ASPEN VALLEY GOLF CLUB
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2018 AND 2017

EXHIBIT A

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 226,870	\$ 336,171
Memberships and Accounts Receivable, Net	41,599	50,906
Associate Contracts Receivable, Current Portion	3,500	3,000
Inventory	35,817	37,255
Prepaid Expenses and Deposits	<u>6,690</u>	<u>9,259</u>
TOTAL CURRENT ASSETS	314,476	436,591
PROPERTY and EQUIPMENT, Net of Accumulated Depreciation	2,553,833	2,507,086
OTHER ASSETS		
Investment in FGMC II, L.L.C.	228,114	214,033
Associate Contracts Receivable, Net of Current Portion	<u>20,700</u>	<u>36,700</u>
TOTAL OTHER ASSETS	<u>248,814</u>	<u>250,733</u>
TOTAL ASSETS	<u>\$ 3,117,123</u>	<u>\$ 3,194,410</u>
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 35,578	\$ 56,179
Salaries and Taxes Payable	28,841	25,763
Accrued Ground Maintenance Expense	<u>38,070</u>	<u>31,431</u>
TOTAL CURRENT LIABILITIES	102,489	113,373
TOTAL LIABILITIES	102,489	113,373
MEMBERSHIP EQUITY		
Unrestricted	<u>3,014,634</u>	<u>3,081,037</u>
TOTAL LIABILITIES AND MEMBERSHIP EQUITY	<u>\$ 3,117,123</u>	<u>\$ 3,194,410</u>

FLAGSTAFF GOLF ASSOCIATION
 dba ASPEN VALLEY GOLF CLUB
 STATEMENTS OF REVENUES AND EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

EXHIBIT B

UNRESTRICTED REVENUES	2018	2017
Membership Dues	\$ 1,137,782	\$ 1,087,018
Cart Fees	212,241	203,468
Guest Green Fees	82,897	80,120
Tournament Fees	54,979	35,637
Bag Storage Fees	17,370	15,280
Golf Shop Sales	\$ 168,155	\$ 136,753
Less: Cost of Golf Shop Sales	(146,870)	21,285
	21,285	(121,836)
Bar and Grill Sales	373,251	330,340
Less: Cost of Bar and Grill Sales	(102,650)	270,601
	270,601	(95,878)
Interest	6,889	3,877
Other Income	13,230	4,208
Loss on Equity Investment	(55,229)	(49,737)
Initiation and Transfer Fees	62,750	105,300
TOTAL UNRESTRICTED REVENUE	1,824,795	1,734,550
EXPENSES	1,891,198	1,839,152
EXCESS OF EXPENSES OVER REVENUE	\$ (66,403)	\$ (104,602)

FLAGSTAFF GOLF ASSOCIATION
 dba ASPEN VALLEY GOLF CLUB
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

EXHIBIT D

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Expenses Over Revenue	\$ (66,403)	\$ (104,602)
Adjustments to Reconcile Excess of Expenses Over Revenue to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	130,160	161,043
Loss on Disposal of Property and Equipment	419	-
Loss on Equity Investment	55,229	49,737
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Memberships and Accounts Receivable, Net	9,307	(17,566)
Associate Contracts Receivable	15,500	15,400
Inventory	1,438	2,731
Prepaid Expenses and Deposits	2,569	(2,423)
Increase (Decrease) in:		
Accounts Payable	(20,601)	7,124
Salaries and Taxes Payable	3,078	(2,607)
Accrued Ground Maintenance Expense	6,639	(16,558)
Net Cash Provided by Operating Activities	137,335	92,279
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(177,326)	(79,632)
Capital Contributed to FGMC II, L.L.C.	(69,310)	(40,679)
Net Cash Used in Investing Activities	(246,636)	(120,311)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred Associate Membership Fees	-	(131,500)
Membership Certificates, Net	-	104,500
Net Cash Used in Financing Activities	-	(27,000)
 DECREASE IN CASH AND CASH EQUIVALENTS	(109,301)	(55,032)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	336,171	391,203
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 226,870	\$ 336,171

FLAGSTAFF GOLF ASSOCIATION
 dba ASPEN VALLEY GOLF CLUB
 STATEMENTS OF CHANGES IN MEMBERSHIP EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

EXHIBIT C

	Number of Certificates	Membership Equity	Accumulated Excess of Expenses Over Revenue	Total
BALANCE, DECEMBER 31, 2016	376	\$ 4,695,500	\$ (1,614,361)	\$ 3,081,139
Excess of Expenses Over Revenue			(104,602)	(104,602)
Memberships Sold	(42)	-	-	-
New Associate Memberships	4	-	-	-
New Full Memberships	38	-	-	-
Assoc Def Inc to Member Equity	24	104,500	-	104,500
Membership Assessment			-	-
BALANCE, DECEMBER 31, 2017	400	\$ 4,800,000	\$ (1,718,963)	\$ 3,081,037
Excess of Expenses Over Revenue			(66,403)	(66,403)
Memberships Sold	(24)	-	-	-
New Associate Memberships	2	-	-	-
New Full Memberships	22	-	-	-
Assoc Def Inc to Member Equity	-	-	-	-
Membership Assessment			-	-
BALANCE, DECEMBER 31, 2018	400	\$ 4,800,000	\$ (1,785,366)	\$ 3,014,634

FLAGSTAFF GOLF ASSOCIATION
dba ASPEN VALLEY GOLF CLUB
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A summary of the Flagstaff Golf Association's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Operations

The Flagstaff Golf Association (the "Association") is a private, not-for-profit association, incorporated under the laws of the state of Arizona, which was organized to promote and encourage the game of golf for the pleasure and recreation of its members, their families, and their guests. The Association owns, and is responsible for the operation and maintenance of, an existing championship golf course known as Aspen Valley Golf Club. Clubhouse amenities include a golf shop, bar and grill, and golf car rental facilities.

Financial Statement Presentation

As required by the Presentation of Financial Statements Topic for Not-for-Profit Entities of the FASB Accounting Standards Codification, the Association reports information regarding its financial position and activities according to three classes of membership equity: unrestricted membership equity, temporarily restricted membership equity, and permanently restricted membership equity. The Association had only unrestricted membership equity in 2018 and 2017.

Basis of Accounting

The Association records financial transactions using the accrual method. Revenues and other increases in equity are recognized when they are earned, and expenses and other decreases in equity are recognized when they are incurred.

Income Taxes

The Association is a not-for-profit organization exempt from income taxes under Section 501(c)(7) of the Internal Revenue Code; therefore, no provision or liability for federal or state income taxes is made in the financial statements.

The Association files information tax returns with the U.S. federal and Arizona state governments. With few exceptions, the Association is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2015 (federal) and 2014 (Arizona). Federal tax year 2014 and Arizona tax year 2013 were open as of December 31, 2017.

Sales Taxes

The Association collects Arizona state and city sales taxes, when applicable, on their golf shop merchandise and food and beverage sales. It is the Association's policy to record sales net of sales tax and to book all sales tax collections and payments to a sales tax liability account.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments with original maturities of one year or less to be cash equivalents

FLAGSTAFF GOLF ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventory is carried at the lower of cost or net realizable value. Golf shop inventory consists of standard merchandise such as golf clubs, golf shoes and other golf accessories that retain their retail sale value from year to year. There are also some clothing items that must be discounted at the end of each year due to changing fashions

Property and Equipment and Depreciation

Property and equipment are recorded at cost or, if donated, at fair market value at the date of receipt. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes. The estimated useful lives of the assets range from 3 to 40 years. Expenditures for maintenance, repairs and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

Investments

As required by the Investments – Debt and Equity Securities Topic for Not-for-Profit Entities of the FASB Accounting Standards Codification, the Association reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Membership Certificates and Transfer Fees

The Company uses a market-based pricing system which allows the member to determine the selling price of the membership certificate. The member is charged a transfer fee of \$2,500. An administrative fee of \$500 is charged to new “Associate” Members.

Membership Dues

Annual membership dues for 2018 and 2017 were \$2,537 and \$2,437 for a single membership, respectively, and \$3,386 and \$3,251 for a family membership, respectively. Membership dues are recognized as revenue over full year (Jan 1 – December 31).

Memberships and Accounts Receivable, Net

Memberships and Accounts Receivable consist primarily of amounts billed to members for dues and assessments. According to the Bylaws of the Association, member’s dues are delinquent starting April 10th at which point signing privileges are removed and a \$200 late fee is charged. If dues are still outstanding as of June 1st, a finance charge of 1% per month is charged. On August 1st, a letter from the Board is sent stating that the member must pay the entire outstanding balance in full within 30 days from the date of written notification or the membership will be terminated and the unpaid balance will be paid with the Member’s equity. Therefore, an allowance for doubtful accounts is not required. Member charges are delinquent after 60 days and a finance charge of 1% per month is assessed. After 90 days, signing privileges are removed in addition to the finance charge. After 120 days, Board action is required plus additional finance charge.

FLAGSTAFF GOLF ASSOCIATION
 dba ASPEN VALLEY GOLF CLUB
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Date of Management's Review

Management has reviewed events subsequent to December 31, 2018 up through July 25, 2019, the date the financial statements were available to be issued, to evaluate their effect on the fair presentation of the financial statements. As of the date the financial statements were available to be issued, there have been no events subsequent to December 31, 2018 that are required to be disclosed in order to present fairly the financial position and changes in membership equity of the Association.

NOTE 2 - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH IN EXCESS OF FEDERALLY INSURED LIMITS

The Association maintains cash balances at several financial institutions located in Arizona. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. These cash balances can fluctuate greatly during the year. The Association monitors this regularly in an attempt to keep this potential risk to a minimum.

NOTE 4 - SUPPLEMENTAL INFORMATION ABOUT CASH FLOWS

Operating activities reflect interest paid of \$0 for 2018 and 2017. The association had no non-cash financing transactions during 2018 and 2017.

NOTE 5 - PROPERTY & EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Land	1,411,363	1,411,363
Buildings and Improvements	909,128	832,576
Course Improvements	868,649	767,876
Irrigation and Pumping	195,040	195,040
Front 9 Irrigation System	728,290	728,290
Back 9 Irrigation System	1,071,934	1,071,934
Bar, Grill and Office Equipment	110,518	115,412
	<u>5,294,922</u>	<u>5,122,491</u>
Less Accumulated Depreciation	<u>(2,741,089)</u>	<u>(2,615,405)</u>
Property and Equipment, Net	<u><u>2,553,833</u></u>	<u><u>2,507,086</u></u>

FLAGSTAFF GOLF ASSOCIATION
dba ASPEN VALLEY GOLF CLUB
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - INVESTMENT IN FLAGSTAFF GOLF MAINTENANCE COMPANY II L.L.C.

Flagstaff Golf Association has a 50% ownership interest in the Flagstaff Golf Maintenance Company. The Flagstaff Golf Maintenance Company (FGMC II, L.L.C.) was specifically established to provide grounds maintenance to Aspen Valley and Continental Country Club golf courses. All golf course maintenance is provided by FGMC II, L.L.C. and each course is billed accordingly. The equity method of accounting is used to reflect Flagstaff Golf Association's investment in FGMC II, L.L.C. FGMC II, L.L.C. incurred net losses of \$110,458 and \$99,474 in 2018 and 2017, respectively. Of these amounts, the Association's share was \$55,229 and \$49,737 in 2018 and 2017, respectively.

NOTE 7 - FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments.

NOTE 8 - OPERATING LEASE

In April 2014 the Association leased its golf cars under a non-cancelable operating lease which expired March 2019. In April 2014 the Association entered into a new lease for its golf cars under a non-cancelable operating lease which expires April 2023. Rent expense under these leases were \$63,160 and \$62,314 for the years ended December 31, 2018 and 2017, respectively.

Minimum future rental payments under this operating lease for each of the next five years and in the aggregate are:

<u>Year</u>	<u>Amount</u>
2019	68,936
2020	68,936
2021	68,936
2022	68,936
2023	<u>22,979</u>
Total minimum future rental payments	<u>\$ 298,723</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

As explained in Note 6, the Association is a 50% owner in the Flagstaff Golf Maintenance Company. Certain members of the Board of Directors of the Association are also members of the Board of Directors of the Flagstaff Golf Maintenance Company.

NOTE 10 - COMPENSATED ABSENCES

Company policy provides for sick leave and paid vacation for full-time employees. Sick leave and vacation pay accrue from the employee's anniversary date of hire and both are required to be used in the year earned. As of December 31, 2018 and 2017, there were no material compensated absences earned but not taken. Therefore, no accrual for such is reflected in the accompanying financial statements.

FLAGSTAFF GOLF ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 - EMPLOYEE RETIREMENT PLAN

The Association sponsored a SIMPLE IRA retirement plan, which covers substantially all qualified full-time employees. Participation in the plan is voluntary and employer contributions are determined on an annual basis. Currently employer contributions are being made at the rate of 3% of the employees' compensation for the year. The Association's contribution to the IRA plan was \$8,503 and \$7,895 for the years ended December 31, 2018 and 2017, respectively.

FLAGSTAFF GOLF ASSOCIATION
dba ASPEN VALLEY GOLF CLUB
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12 - FUNCTIONAL EXPENSES

	2018		
	Program Services	Support Services	Total
Accounting & Consulting	\$ -	\$ 29,464	29,464
Bad Debt Expense	4,385	-	4,385
Course Maintenance	635,819	-	635,819
Depreciation & Amortization	130,160	-	130,160
Insurance	36,088	-	36,088
Lease Expense	63,160	-	63,160
Other Expenses	13,518	-	13,518
Payroll & Related Expenses	540,569	73,714	614,283
Printing, Postage & Office	53,461	-	53,461
Property Taxes	14,992	-	14,992
Reclaimed Water	106,438	-	106,438
Repairs & Maintenance	10,853	-	10,853
Retirement Plan	7,483	1,020	8,503
Supplies & Services	57,726	-	57,726
Tournament Expenses	41,074	-	41,074
Utilities & Telephone	71,274	-	71,274
Total	\$ 1,787,000	\$ 104,198	\$ 1,891,198

	2017		
	Program Services	Support Services	Total
Accounting & Consulting	\$ -	\$ 17,632	17,632
Bad Debt Expense	5,573	-	5,573
Course Maintenance	602,142	-	602,142
Depreciation & Amortization	161,043	-	161,043
Insurance	33,692	-	33,692
Lease Expense	62,314	-	62,314
Other Expenses	25,649	-	25,649
Payroll & Related Expenses	500,914	68,307	569,221
Printing, Postage & Office	64,284	-	64,284
Property Taxes	15,833	-	15,833
Reclaimed Water	108,396	-	108,396
Repairs & Maintenance	20,733	-	20,733
Retirement Plan	6,948	947	7,895
Supplies & Services	48,164	-	48,164
Tournament Expenses	25,971	-	25,971
Utilities & Telephone	70,610	-	70,610
Total	\$ 1,752,266	\$ 86,886	\$ 1,839,152