CONSOLIDATED TOMOKA LAND CO
Form 10-Q
October 26, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 01-11350

CONSOLIDATED-TOMOKA LAND CO.

(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	59-0483700 (I.R.S. Employer Identification No.)
1140 N. Williamson Blvd., Suite 140 Daytona Beach, Florida (Address of principal executive offices)	32114 (Zip Code)

(386) 274-2202

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock Outstanding

October 18, 2018

$1.00 par value 5,516,518

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2018	December 31, 2017
ASSETS		
Property, Plant, and Equipment:		
Income Properties, Land, Buildings, and Improvements	$ 396,483,185	$ 358,130,350
Golf Buildings, Improvements, and Equipment	3,746,877	6,617,396
Other Furnishings and Equipment	726,380	715,042
Construction in Progress	761,696	6,005,397
Total Property, Plant, and Equipment	401,718,138	371,468,185
Less, Accumulated Depreciation and Amortization	(26,467,425)	(23,779,780)
Property, Plant, and Equipment—Net	375,250,713	347,688,405
Land and Development Costs	27,243,368	39,477,697
Intangible Lease Assets—Net	37,112,279	38,758,059
Investment in Joint Venture	6,738,537	—
Impact Fee and Mitigation Credits	538,926	1,125,269
Commercial Loan Investments	—	11,925,699
Cash and Cash Equivalents	5,320,493	6,559,409
Restricted Cash	8,477,796	6,508,131
Refundable Income Taxes	624,759	1,116,580
Other Assets—See Note 10	14,852,899	12,971,129
Total Assets	$ 476,159,770	$ 466,130,378
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts Payable	$ 844,745	$ 1,880,516
Accrued and Other Liabilities—See Note 15	6,265,875	10,160,526
Deferred Revenue—See Note 16	6,954,111	2,030,459
Intangible Lease Liabilities—Net	28,415,319	29,770,441
Deferred Income Taxes—Net	50,308,213	42,293,864
Long-Term Debt	177,359,493	195,816,364
Total Liabilities	270,147,756	281,952,170
Commitments and Contingencies—See Note 19		
Shareholders' Equity:		
Shareholders' Equity:		
Common Stock – 25,000,000 shares authorized; $1 par value, 6,051,168 shares issued and 5,538,310 shares outstanding at September 30, 2018; 6,030,990 shares issued and 5,584,335 shares outstanding at December 31,	5,994,216	5,963,850

2017		
Treasury Stock – 512,858 shares at September 30, 2018 and 446,655 shares at December 31, 2017	(26,484,765)	(22,507,760)
Additional Paid-In Capital	23,862,170	22,735,228
Retained Earnings	201,936,651	177,614,274
Accumulated Other Comprehensive Income	703,742	372,616
Total Shareholders’ Equity	206,012,014	184,178,208
Total Liabilities and Shareholders’ Equity	$ 476,159,770	$ 466,130,378

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenues				
Income Properties	$ 9,360,155	$ 7,928,258	$ 28,347,181	$ 22,566,505
Interest Income from Commercial Loan Investments	41,262	637,801	615,728	1,727,449
Real Estate Operations	8,012,509	2,926,406	24,476,153	45,658,221
Golf Operations	1,014,771	797,420	3,652,045	3,655,877
Agriculture and Other Income	—	90,717	22,374	323,617
Total Revenues	18,428,697	12,380,602	57,113,481	73,931,669
Direct Cost of Revenues				
Income Properties	(1,773,840)	(1,715,516)	(5,677,758)	(4,756,744)
Real Estate Operations	(5,572,319)	(459,169)	(7,978,251)	(15,408,547)
Golf Operations	(1,388,282)	(1,272,647)	(4,295,160)	(4,173,244)
Agriculture and Other Income	(5,172)	(18,874)	(15,516)	(89,847)
Total Direct Cost of Revenues	(8,739,613)	(3,466,206)	(17,966,685)	(24,428,382)
General and Administrative Expenses	(1,928,008)	(1,995,512)	(7,180,737)	(7,942,846)
Impairment Charges	(1,119,362)	—	(1,119,362)	—
Depreciation and Amortization	(3,857,240)	(3,161,169)	(11,612,557)	(9,139,434)
Total Operating Expenses	(15,644,223)	(8,622,887)	(37,879,341)	(41,510,662)
Gain (Loss) on Disposition of Assets	—	(266)	22,035,666	(266)
Land Lease Income	—	—	—	2,226,526
Other Gains (Losses) and Income	—	(266)	22,035,666	2,226,260
Total Operating Income	2,784,474	3,757,449	41,269,806	34,647,267
Investment Income	14,179	9,724	38,383	27,431
Interest Expense	(2,345,156)	(2,073,299)	(7,443,922)	(6,279,366)
Income Before Income Tax Expense	453,497	1,693,874	33,864,267	28,395,332
Income Tax Expense	(157,325)	(726,974)	(8,492,888)	(11,003,132)
Net Income	$ 296,172	$ 966,900	$ 25,371,379	$ 17,392,200
Per Share Information—See Note 11:				
Basic Net Income per Share	$ 0.05	$ 0.18	$ 4.60	$ 3.13
Diluted Net Income per Share	$ 0.05	$ 0.18	$ 4.57	$ 3.13
Dividends Declared and Paid	$ 0.07	$ 0.05	$ 0.19	$ 0.13

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net Income	$ 296,172	$ 966,900	$ 25,371,379	$ 17,392,200
Other Comprehensive Income (Loss)				
Cash Flow Hedging Derivative - Interest Rate Swap (Net of Income Tax of $7,576 and $3,720 for the three months ended September 30, 2018 and 2017, respectively, and Net of Income Tax of $85,169 and $(2,548) for the nine months ended September 30, 2018 and 2017, respectively)	22,316	5,924	331,126	(4,056)
Total Other Comprehensive Income (Loss), Net of Income Tax	22,316	5,924	331,126	(4,056)
Total Comprehensive Income	$ 318,488	$ 972,824	$ 25,702,505	$ 17,388,144

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance January 1, 2018	$ 5,963,850	$ (22,507,760)	$ 22,735,228	$ 177,614,274	$ 372,616	$ 184,178,208
Net Income	—	—	—	25,371,379	—	25,371,379
Stock Repurchase	—	(3,977,005)	—	—	—	(3,977,005)
Exercise of Stock Options	8,520	—	189,849	—	—	198,369
Vested Restricted Stock	19,065	—	(517,439)	—	—	(498,374)
Stock Issuance	2,781	—	171,098	—	—	173,879
Stock Compensation Expense from Restricted Stock Grants and Equity Classified Stock Options	—	—	1,283,434	—	—	1,283,434
Cash Dividends ($0.19 per share)	—	—	—	(1,049,002)	—	(1,049,002)
Other Comprehensive Income, Net of Income Tax	—	—	—	—	331,126	331,126
Balance September 30, 2018	$ 5,994,216	$ (26,484,765)	$ 23,862,170	$ 201,936,651	$ 703,742	$ 206,012,014

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2018	September 30, 2017
Cash Flow from Operating Activities:		
Net Income	$ 25,371,379	$ 17,392,200
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	11,612,557	9,139,434
Amortization of Intangible Liabilities to Income Property Revenue	(1,779,031)	(1,632,881)
Loan Cost Amortization	389,656	350,292
Amortization of Discount on Convertible Debt	947,419	888,851
Loss (Gain) on Disposition of Property, Plant, and Equipment and Intangible Assets	(22,035,666)	266
Impairment Charges	1,119,362	—
Accretion of Commercial Loan Origination Fees	(34,768)	(10,144)
Deferred Income Taxes	8,345,475	12,090,118
Non-Cash Compensation	1,283,434	1,142,090
Decrease (Increase) in Assets:		
Refundable Income Taxes	491,821	(566,721)
Land and Development Costs	3,090,301	11,204,943
Impact Fees and Mitigation Credits	586,343	1,057,469
Other Assets	(2,139,265)	895,466
Increase (Decrease) in Liabilities:		
Accounts Payable	(1,035,771)	(210,292)
Accrued and Other Liabilities	(4,194,651)	(1,984,999)
Deferred Revenue	600,929	(678,641)
Net Cash Provided By Operating Activities	22,619,524	49,077,451
Cash Flow from Investing Activities:		
Acquisition of Property, Plant, and Equipment and Intangible Lease Assets and Liabilities	(29,399,109)	(49,689,555)
Acquisition of Commercial Loan Investments	—	(2,940,000)
Acquisition of Land	(3,794,058)	—
Cash Contribution for Interest in Joint Venture	(2,087,521)	—
Proceeds from Disposition of Property, Plant, and Equipment	26,377,525	—
Principal Payments Received on Commercial Loan Investments	11,960,467	—
Net Cash Provided By (Used In) Investing Activities	3,057,304	(52,629,555)
Cash Flow from Financing Activities:		
Proceeds from Long-Term Debt	36,300,000	24,500,000
Payments on Long-Term Debt	(55,830,473)	(17,800,000)
Cash Paid for Loan Fees	(263,473)	(532,814)

Cash Proceeds from Exercise of Stock Options and Stock Issuance	372,248	841,775
Cash Used to Purchase Common Stock	(3,977,005)	(7,136,494)
Cash Paid for Vesting of Restricted Stock	(498,374)	(261,621)
Dividends Paid	(1,049,002)	(722,033)
Net Cash Used In Financing Activities	(24,946,079)	(1,111,187)
Net Increase (Decrease) in Cash	730,749	(4,663,291)
Cash, Beginning of Year	13,067,540	17,635,031
Cash, End of Period	$ 13,798,289	$ 12,971,740

Reconciliation of Cash to the Consolidated Balance Sheets:		
Cash and Cash Equivalents	$ 5,320,493	$ 5,944,544
Restricted Cash	8,477,796	7,027,196
Total Cash as of September 30, 2018 and 2017, respectively	$ 13,798,289	$ 12,971,740

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

Supplemental Disclosure of Cash Flows:

Income taxes refunded, net of payments made, totaled approximately $8,000 during the nine months ended September 30, 2018. Income taxes refunded, net of payments made, totaled approximately $531,000 during the nine months ended September 30, 2017.

Interest totaling approximately $7.0 million and $6.0 million was paid during the nine months ended September 30, 2018 and 2017, respectively. No interest was capitalized during the nine months ended September 30, 2018, while approximately $124,000 of interest was capitalized during the nine months ended September 30, 2017.

In connection with the Mitigation Bank transaction (hereinafter defined in Note 5, "Land and Subsurface Interests"), the Company recognized a gain totaling approximately $18.4 million. The non-cash components of the gain totaled approximately $5.1 million and were reflected as an increase in the Investment in Joint Venture of approximately $6.7 million, an increase in Accrued and Other Liabilities of approximately $300,000, and a decrease in Land and Development Costs of approximately $1.3 million on the accompanying consolidated balance sheets as of September 30, 2018.

In connection with the acquisition of the property in Aspen, Colorado, the tenant contributed $1.5 million of the $28.0 million purchase price at closing on February 21, 2018. The $1.5 million purchase contribution was reflected as an increase in Income Property, Land, Buildings, and Improvements and Deferred Revenue on the accompanying consolidated balance sheets as of September 30, 2018.

In connection with the construction of the beachfront restaurant leased to Cocina 214 Restaurant & Bar in Daytona Beach, Florida, the tenant contributed approximately $1.9 million of the building and tenant improvements owned by the Company through direct payments to various third-party construction vendors. The approximately $1.9 million asset contribution was reflected as an increase in Income Property, Land, Buildings, and Improvements and Deferred Revenue on the accompanying consolidated balance sheets as of September 30, 2018.

In connection with the Golf Course Land Purchase (hereinafter defined in Note 15, "Accrued and Other Liabilities"), each year the Company is obligated to pay the City of Daytona Beach, Florida (the "City") an annual surcharge of $1 per golf round played (the "Per-Round Surcharge") with an annual minimum Per-Round Surcharge of $70,000 and a maximum aggregate of Per-Round Surcharges of $700,000. The maximum amount of $700,000 represents contingent consideration and was reflected as an increase in Golf Buildings, Improvements, and Equipment and also as an increase in Accrued and Other Liabilities on the accompanying consolidated balance sheets as of September 30, 2017.

See Accompanying Notes to Consolidated Financial Statements

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NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS

Description of Business

The terms "us," "we," "our," and "the Company" as used in this report refer to Consolidated-Tomoka Land Co. together with our consolidated subsidiaries.

We are a diversified real estate operating company. As of September 30, 2018, we owned and managed thirty-six commercial real estate properties in thirteen states in the United States. As of September 30, 2018, we owned twenty-nine single-tenant and seven multi-tenant income-producing properties with approximately 2.1 million square feet of gross leasable space. For a description of properties acquired subsequent to September 30, 2018, see Note 21, "Subsequent Events." As of September 30, 2018, we have no commercial loan investments. We also own and manage a portfolio of undeveloped land totaling approximately 5,500 acres in Daytona Beach, Florida. We have golf operations which consist of the LPGA International Golf Club, also located in Daytona Beach, which is managed by a third party. We also lease some of our land for eighteen billboards, have agricultural operations that are managed by a third party, which consist of leasing land for hay production and timber harvesting, and own and manage Subsurface Interests (hereinafter defined). The results of our agricultural and subsurface leasing operations are included in Agriculture and Other Income and Real Estate Operations, respectively, in our consolidated statements of operations.

Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited consolidated financial statements do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which provides a more complete understanding of the Company's accounting policies, financial position, operating results, business properties, and other matters. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position of the Company and the results of operations for the interim periods.

The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of results to be expected for the year ending December 31, 2018.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and other entities in which we have a controlling interest. Any real estate entities or properties included in the consolidated financial statements have been consolidated only for the periods that such entities or properties were owned or under control by us. All inter-company balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, which amends its guidance on the recognition and reporting of revenue from contracts with customers. In April 2016, the FASB Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers was issued. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017. The Company completed its evaluation of the provisions during the year ended December 31, 2017 and determined there was no impact on the Company's revenue recognition within the consolidated financial statements. All required disclosures relating to FASB ASC Topic 606 have been implemented herein as required by the standard. The Company adopted FASB ASC Topic 606 effective January 1, 2018 utilizing the modified retrospective method.

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In January 2016, the FASB issued ASU 2016-01, relating to the recognition and measurement of financial assets and financial liabilities. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017. The Company adopted ASU 2016-01 effective January 1, 2018 and determined there was no material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, which requires entities to recognize assets and liabilities that arise from financing and operating leases and to classify those finance and operating lease payments in the financing or operating sections, respectively, of the statement of cash flows pursuant to FASB ASC Topic 842, Leases. The amendments in this update are effective for annual reporting periods beginning after December 15, 2018.

During the Company's evaluation of FASB ASC Topic 842, Leases, during the third quarter of 2018, the following practical expedients and accounting policies with respect to ASC 842 will be elected and/or adopted effective January 1, 2019:

- The Company, as lessee and as lessor, will not reassess (i) whether any expired or existing contracts are or contain leases (ii) lease classification for any expired or existing leases or (iii) initial direct costs for any expired or existing leases.
- The Company, as lessee, will not apply the recognition requirements of ASC 842 to short-term (twelve months or less) leases. Instead, the Company, as lessee, will recognize the lease payments in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. As of the date of this report, the Company has no such short-term leases.
- The Company, as lessor, will not separate nonlease components from lease components and, instead, will account for each separate lease component and the nonlease components associated with that lease as a single component if the nonlease components otherwise would be accounted for under ASC Topic 606. The primary reason for this election is related to instances where common area maintenance is, or may be, a component of base rent within a lease agreement.

The Company completed its evaluation FASB ASC Topic 842, Leases during the third quarter of 2018 with following conclusions with regards to implementation effective January 1, 2019:

- The Company has elected to implement ASC 842 retrospectively at the beginning of the period of adoption, January 1, 2019, through a cumulative-effect adjustment. We estimate an immaterial adjustment to increase right-of use assets and lease liabilities for operating leases for which the Company is the lessee. The Company does not anticipate any adjustment related to the leases for which the Company is the lessor.

In August 2016, the FASB issued ASU 2016-15, which clarifies the appropriate classification of certain cash receipts and payments in the statement of cash flows. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017. The Company adopted ASU 2016-15 effective January 1, 2018 and determined there was no material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, which addresses diversity in the classification and presentation of changes in restricted cash in the statement of cash flows as operating, investing, or financing activities. The Company adopted ASU 2016-18 effective January 1, 2018 and has classified the changes in restricted cash between operating, investing, and financing in the consolidated statements of cash flows as applicable per the new guidance.

In February 2018, the FASB issued ASU 2018-02, which amends the guidance allowing for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act effective January 1, 2018 (the "2018 Tax Cuts and Jobs Act"). The amendments in this update are effective for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on its consolidated financial statements.

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Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank demand accounts, and money market accounts having original maturities of 90 days or less. The Company's bank balances as of September 30, 2018 include certain amounts over the Federal Deposit Insurance Corporation limits.

Restricted Cash

Restricted cash totaled approximately $8.5 million at September 30, 2018 of which approximately $1.2 million is being held in three separate escrow accounts related to three separate land transactions which closed in December 2013, February 2017, and March 2018; approximately $6.5 million is being held in two separate escrow accounts to be reinvested through the like-kind exchange structure into other income properties; approximately $197,000 is being held in a capital replacement reserve account in connection with our financing of six income properties with Wells Fargo Bank, NA ("Wells Fargo"); and approximately $620,000 is being held in a leasing reserve in connection with our acquisition of the property in Aspen, Colorado in February 2018.

Derivative Financial Instruments and Hedging Activity

Interest Rate Swap. In conjunction with the variable-rate mortgage loan secured by our property located in Raleigh, North Carolina leased to Wells Fargo, the Company entered into an interest rate swap to fix the interest rate (the "Interest Rate Swap"). The Company accounts for its cash flow hedging derivative in accordance with FASB ASC Topic 815-20, Derivatives and Hedging. Depending upon the hedge's value at each balance sheet date, the derivative is included in either Other Assets or Accrued and Other Liabilities on the consolidated balance sheet at its fair value. On the date the Interest Rate Swap was entered into, the Company designated the derivative as a hedge of the variability of cash flows to be paid related to the recognized long-term debt liability.

The Company formally documented the relationship between the hedging instrument and the hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. At the hedge's inception, the Company formally assessed whether the derivative that is used in hedging the transaction is highly effective in offsetting changes in cash flows of the hedged item, and we will continue to do so on an ongoing basis. As the terms of the Interest Rate Swap and the associated debt are identical, the Interest Rate Swap qualifies for the shortcut method, therefore, it is assumed that there is no hedge ineffectiveness throughout the entire term of the Interest Rate Swap.

Changes in fair value of the Interest Rate Swap that are highly effective and designated and qualified as a cash-flow hedge are recorded in other comprehensive income and loss, until earnings are affected by the variability in cash flows of the designated hedged item.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial assets and liabilities including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued and other liabilities at September 30, 2018 and December 31, 2017, approximate fair value because of the short maturity of these instruments. The carrying amount of the Company's investments in variable rate commercial loans approximates fair value at December 31, 2017, since the floating rates of the loans reasonably approximate current market rates for notes with similar risks and maturities. There were no investments in variable rate commercial loans as of September 30, 2018. The carrying value of the Company's credit facility approximates current market rates for revolving credit arrangements with similar risks and maturities. The face value of the Company's fixed rate commercial loan investment, mortgage notes, and convertible debt is measured at fair value based on current market rates for financial instruments with similar risks and maturities.

See Note 7, "Fair Value of Financial Instruments."

Fair Value Measurements

The Company's estimates of fair value of financial and non-financial assets and liabilities is based on the framework established by GAAP. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. GAAP describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

· Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.

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- Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

Recognition of Interest Income from Commercial Loan Investments

Interest income on commercial loan investments includes interest payments made by the borrower and the accretion of purchase discounts and loan origination fees, offset by the amortization of loan costs. Interest payments are accrued based on the actual coupon rate and the outstanding principal balance, and purchase discounts and loan origination fees are accreted into income using the effective yield method, adjusted for prepayments.

Impact Fees and Mitigation Credits

Impact fees and mitigation credits are stated at historical cost. As these assets are sold, the related revenues and cost basis are reported as revenues from, and direct costs of, real estate operations, respectively, in the consolidated statements of operations.

Accounts Receivable

Accounts receivable related to income properties, which are classified in other assets on the consolidated balance sheets, primarily consist of tenant reimbursable expenses. Receivables related to tenant reimbursable expenses totaled approximately $356,000 and $895,000 as of September 30, 2018 and December 31, 2017, respectively.

Accounts receivable related to real estate operations, which are classified in other assets on the consolidated balance sheets, totaled approximately $2.1 million and $2.2 million as of as of September 30, 2018 and December 31, 2017, respectively. As more fully described in Note 10, "Other Assets," these accounts receivable are primarily related to the reimbursement of certain infrastructure costs completed by the Company in conjunction with two land sale transactions that closed during the fourth quarter of 2015.

Trade accounts receivable primarily consist of receivables related to the golf operations, which are classified in other assets on the consolidated balance sheets. Trade accounts receivable related to golf operations, which primarily consist of amounts due from members or from private events, totaled approximately $244,000 and $349,000 as of September 30, 2018 and December 31, 2017, respectively.

The collectability of the aforementioned receivables is determined based on the aging of the receivable and a review of the specifically identified accounts using judgments. As of September 30, 2018 and December 31, 2017, no allowance for doubtful accounts was required.

Purchase Accounting for Acquisitions of Real Estate Subject to a Lease

In accordance with the FASB guidance on business combinations, the fair value of the real estate acquired with in-place leases is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, and the value of leasing costs, based in each case on their relative fair values.

The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land, building and tenant improvements based on the determination of the fair values of these assets.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management’s estimate of fair market lease rates for the corresponding

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in-place leases, measured over a period equal to the remaining term of the lease, including the probability of renewal periods. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term unless the Company believes that it is likely that the tenant will renew the option whereby the Company amortizes the value attributable to the renewal over the renewal period.

The aggregate value of other acquired intangible assets, consisting of in-place leases, is measured by the excess of (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as-if-vacant, determined as set forth above. The value of in-place leases exclusive of the value of above-market and below-market in-place leases is amortized to expense over the remaining non-cancelable periods of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be written off. The value of tenant relationships is reviewed on individual transactions to determine if future value was derived from the acquisition.

In January 2017, the FASB issued ASU 2017-01, Business Combinations which clarified the definition of a business. Pursuant to ASU 2017-01, the acquisition of an income property subject to a lease no longer qualifies as a business combination, but rather an asset acquisition, accordingly acquisition costs have been capitalized.

Sales of Real Estate

Gains and losses on sales of real estate are accounted for as required by FASB ASC Topic 606, Revenue from Contracts with Customers. The Company recognizes revenue from the sales of real estate when the Company transfers the promised goods and/or services in the contract based on the transaction price allocated to the performance obligations within the contract. As market information becomes available, real estate cost basis is analyzed and recorded at the lower of cost or market.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred income taxes result primarily from the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. See Note 18, “Income Taxes.” In June 2006, the FASB issued additional guidance, which clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements included in income taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with FASB guidance included in income taxes, the Company has analyzed its various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported. Additionally, the Company believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to the FASB guidance.

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NOTE 2. REVENUE RECOGNITION

The Company implemented FASB ASC Topic 606, Revenue from Contracts with Customers effective January 1, 2018 utilizing the modified retrospective method.

The following table summarizes the Company's revenue by segment, major good and/or service, and the related timing of revenue recognition for the three months ended September 30, 2018:

	Income Properties ($000's)	Interest Income from Commercial Loan Investments ($000's)	Real Estate Operations ($000's)	Golf Operations ($000's)	Agriculture and Other Income ($000's)	Total Revenues ($000's)
Major Good / Service:						
Lease Revenue - Base Rent	$ 7,446	$ —	$ —	$ —	$ —	$ 7,446
Lease Revenue - CAM	552	—	—	—	—	552
Lease Revenue - Reimbursements	644	—	—	—	—	644
Lease Revenue - Billboards	60	—	—	—	—	60
Above / Below Market Lease Accretion	600	—	—	—	—	600
Contributed Leased Assets Accretion	62	—	—	—	—	62
Lease Incentive Amortization	(76)	—	—	—	—	(76)
Interest from Commercial Loan Investments	—	41	—	—	—	41
Land Sale Revenue	—	—	6,971	—	—	6,971
Impact Fee and Mitigation Credit Sales	—	—	665	—	—	665
Subsurface Lease Revenue	—	—	354	—	—	354
Subsurface Revenue - Other	—	—	23	—	—	23
Golf Operations	—	—	—	1,015	—	1,015
Interest and Other Revenue	72	—	—	—	—	72
Total Revenues	$ 9,360	$ 41	$ 8,013	$ 1,015	$ —	$ 18,429
Timing of Revenue Recognition:						
Asset/Good Transferred at a Point in Time	$ —	$ —	$ 7,659	$ 773	$ —	$ 8,432
Services Transferred Over Time	72	—	—	242	—	314
Over Lease Term	9,288	—	354	—	—	9,642
Commercial Loan Investment Related Revenue	—	41	—	—	—	41
Total Revenues	$ 9,360	$ 41	$ 8,013	$ 1,015	$ —	$ 18,429

The following table summarizes the Company's revenue by segment, major good and/or service, and the related timing of revenue recognition for the three months ended September 30, 2017:

	Income Properties ($000's)	Interest Income from Commercial Loan Investments ($000's)	Real Estate Operations ($000's)	Golf Operations ($000's)	Agriculture and Other Income ($000's)	Total Revenues ($000's)
Major Good / Service:						
Lease Revenue - Base Rent	$ 6,184	$ —	$ —	$ —	$ 11	$ 6,195
Lease Revenue - CAM	450	—	—	—	—	450
Lease Revenue - Reimbursements	676	—	—	—	—	676
Lease Revenue - Billboards	59	—	—	—	—	59
Above / Below Market Lease Accretion	552	—	—	—	—	552
Interest from Commercial Loan Investments	—	638	—	—	—	638
Impact Fee and Mitigation Credit Sales	—	—	548	—	—	548
Subsurface Lease Revenue	—	—	253	—	—	253
Subsurface Revenue - Other	—	—	2,121	—	—	2,121
Fill Dirt and Other Revenue	—	—	4	—	—	4
Golf Operations	—	—	—	797	—	797
Timber Sales Revenue	—	—	—	—	80	80
Interest and Other Revenue	7	—	—	—	—	7
Total Revenues	$ 7,928	$ 638	$ 2,926	$ 797	$ 91	$ 12,380
Timing of Revenue Recognition:						
Asset/Good Transferred at a Point in Time	$ —	$ —	$ 2,673	$ 540	$ 80	$ 3,293
Services Transferred Over Time	7	—	—	257	—	264
Over Lease Term	7,921	—	253	—	11	8,185
Commercial Loan Investment Related Revenue	—	638	—	—	—	638
Total Revenues	$ 7,928	$ 638	$ 2,926	$ 797	$ 91	$ 12,380

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The following table summarizes the Company’s revenue by segment, major good and/or service, and the related timing of revenue recognition for the nine months ended September 30, 2018:

	Income Properties ($000's)	Interest Income from Commercial Loan Investments ($000's)	Real Estate Operations ($000's)	Golf Operations ($000's)	Agriculture and Other Income ($000's)	Total Revenues ($000's)
Major Good / Service:						
Lease Revenue - Base Rent	$ 22,233	$ —	$ —	$ —	$ 22	$ 22,255
Lease Revenue - CAM	2,057	—	—	—	—	2,057
Lease Revenue - Reimbursements	2,009	—	—	—	—	2,009
Lease Revenue - Billboards	194	—	—	—	—	194
Above / Below Market Lease Accretion	1,779	—	—	—	—	1,779
Contributed Leased Assets Accretion	157	—	—	—	—	157
Lease Incentive Amortization	(227)	—	—	—	—	(227)
Interest from Commercial Loan Investments	—	616	—	—	—	616
Land Sale Revenue	—	—	21,821	—	—	21,821
Impact Fee and Mitigation Credit Sales	—	—	1,251	—	—	1,251
Subsurface Lease Revenue	—	—	753	—	—	753
Subsurface Revenue - Other	—	—	650	—	—	650
Fill Dirt and Other Revenue	—	—	1	—	—	1
Golf Operations	—	—	—	3,652	—	3,652
Interest and Other Revenue	145	—	—	—	—	145
Total Revenues	$ 28,347	$ 616	$ 24,476	$ 3,652	$ 22	$ 57,113
Timing of Revenue Recognition:						
Asset/Good Transferred at a Point in Time	$ —	$ —	$ 23,723	$		