

CONTINENTAL COUNTRY CLUB, INC.

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

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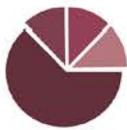
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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of
Continental Country Club, Inc.
Flagstaff, Arizona

We have reviewed the accompanying balance sheets of Continental Country Club, Inc. (a homeowners' association) as of December 31, 2014 and 2013, and the related statements of operations, changes in members' equity, and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Association's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, certain conditions indicate that the Association may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Association be unable to continue as a going concern.

Generally accepted accounting principles require that the Association perform a test to determine whether related parties are a variable interest entity that should be consolidated into the Association's financial statements. Management has informed us that the Association has not performed a test for consolidation and has not determined whether consolidation is warranted. The effect of this departure from generally accepted accounting principles on financial position and results of operations have not been determined.

The American Institute of Certified Public Accountants has determined that supplementary information about future major repairs and replacements of common property is required to supplement, but not required to be a part of, the basic financial statements. The Association has not presented this supplementary information.

Our reviews were made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information included in the accompanying Schedules of Operating Expenses is presented only for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the financial statements and we are not aware of any material modifications that should be made thereto.



HintonBurdick, PLLC

March 16, 2015

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CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS
December 31, 2014 and 2013

ASSETS	2014	2013
Current assets		
Cash and cash equivalents	\$ 111,507	\$ 38,135
Certificate of deposit	88,675	88,491
Assessments and trade receivables, net	527,839	580,909
Note receivable, current portion	400	800
Employee advances	-	1,600
Inventory	23,815	23,858
Prepaid expenses	15,143	3,767
Total current assets	767,379	737,560
Property and equipment		
Land	443,619	443,619
Buildings	1,590,466	1,590,466
Equipment	334,780	332,069
Improvements	3,221,425	3,221,425
Office equipment	39,164	36,694
	5,629,454	5,624,273
Less: accumulated depreciation	(3,910,582)	(3,744,531)
Net property and equipment	1,718,872	1,879,742
Other assets		
Certificate of deposit - Lake Elaine improvements and maintenance	156,058	155,981
Investment in FGMC	228,698	236,432
Deferred income tax asset	60,000	70,000
Loan fees, net of accumulated amortization of \$39,227 and \$36,080	21,240	24,387
Note receivable, long-term portion	88,244	88,644
Right to repurchase license	1,356	556
Total other assets	555,596	576,000
Total assets	\$ 3,041,847	\$ 3,193,302

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS (Continued)
December 31, 2014 and 2013

	2014	2013
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	\$ 130,119	\$ 117,354
Accrued expenses	53,516	69,333
Deferred lot assessments	872,378	870,704
Bank line of credit	-	35,000
Current portion of note payable	69,155	64,756
	1,125,168	1,157,147
Long-term liabilities		
Note payable, net of current portion	1,125,671	1,195,722
Lake Elaine improvements and maintenance	156,058	155,981
Advance deposit	4,500	4,500
Obligation to repurchase license	1,356	556
	1,287,585	1,356,759
Total liabilities	2,412,753	2,513,906
Members' equity		
Undesignated	629,094	679,396
Designated for future repairs and replacements	-	-
	629,094	679,396
Total liabilities and members' equity	\$ 3,041,847	\$ 3,193,302

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Food and beverage revenue	\$ 56,298	\$ 56,794
Golf course revenue	748,298	747,509
Membership revenue	963,948	958,442
Newsletter revenue	1,878	2,468
Other revenue	8,268	76,721
Pro shop revenue	73,479	111,384
Property management fees	10,440	10,440
Recreation revenue	22,200	18,900
Transfer and inspection fees	123,300	116,100
Total revenues	<u>2,008,109</u>	<u>2,098,758</u>
Cost of sales	<u>57,127</u>	<u>105,536</u>
Gross profit	1,950,982	1,993,222
Operating expenses	<u>2,008,047</u>	<u>2,148,856</u>
Loss from operations	<u>(57,065)</u>	<u>(155,634)</u>
Other revenues and expenses		
Equity in loss of FGMC	(23,949)	(29,395)
Interest revenue	8,226	9,418
Miscellaneous revenue	533	880
Miscellaneous expense	(2,625)	-
Rental revenue	34,628	30,015
Total other revenues and expenses	<u>16,813</u>	<u>10,918</u>
Loss before income taxes	(40,252)	(144,716)
Income tax expense	<u>(10,050)</u>	<u>(35,050)</u>
Net loss	<u>\$ (50,302)</u>	<u>\$ (179,766)</u>

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2014 and 2013

For the Year Ended December 31, 2013

Members' equity, beginning of year (as previously stated)	\$ 859,162
Net loss	<u>(179,766)</u>
Members' equity, end of year	<u><u>\$ 679,396</u></u>

For the Year Ended December 31, 2014

Members' equity, beginning of year	\$ 679,396
Net loss	<u>(50,302)</u>
Members' equity, end of year	<u><u>\$ 629,094</u></u>

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating activities		
Operating revenue received	\$ 2,060,885	\$ 2,030,443
Interest received	8,042	9,197
Rental revenue received	34,628	30,015
Miscellaneous revenue received	(2,092)	880
Operating costs paid	(1,824,401)	(1,838,238)
Interest paid	(83,993)	(88,100)
Income taxes paid	(50)	(50)
	193,019	144,147
Investing activities		
Purchase of equipment	(5,181)	(57,092)
Employee advances	-	(1,735)
Payment on employee advances	1,600	3,035
Proceeds from note receivable	800	288
Contributed capital to FGMC	(16,214)	(24,732)
	(18,995)	(80,236)
Financing activities		
Advance on bank line of credit	75,000	125,000
Payment on bank line of credit	(110,000)	(90,000)
Advance deposit received	-	4,500
Payment of long-term debt	(65,652)	(76,786)
	(100,652)	(37,286)
Net change in cash and cash equivalents	73,372	26,625
Cash and cash equivalents, beginning of year	38,135	11,510
Cash and cash equivalents, end of year	\$ 111,507	\$ 38,135

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of net loss to cash provided by operating activities		
Net loss	\$ (50,302)	\$ (179,766)
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation	166,051	211,066
Amortization	3,147	4,838
Equity in loss of FGMC	23,949	29,395
Interest earned on Lake Elaine account	77	78
Interest income applied to certificates of deposit	(261)	(299)
Decrease (increase) in:		
Assessments and trade receivables, net	53,070	(64,716)
Inventory	43	(150)
Prepaid expenses	(11,376)	12,719
Deposits	-	403
Deferred income tax asset	10,000	35,000
Increase (decrease) in:		
Accounts payable	12,765	96,860
Accrued expenses	(15,818)	(144)
Deferred lot assessments	1,674	(1,137)
Total adjustments	<u>243,321</u>	<u>323,913</u>
Net cash provided by operating activities	<u>\$ 193,019</u>	<u>\$ 144,147</u>
Non-cash investing and financing activities		
Change in investment in FGMC due to equity method of accounting for the investment	<u>\$ (23,949)</u>	<u>\$ (29,395)</u>

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 1. Organization

Continental Country Club, Inc. is a Homeowners Association whose primary purpose is to preserve, maintain, and manage the property in the surrounding community club area located in Flagstaff, Arizona. The Association was incorporated on June 15, 1972 in the State of Arizona. Continental Country Club, Inc. has 2,390 lots as of December 31, 2014 and 2015. In addition, the Association owns and operates an eighteen-hole public golf course, a retail golf shop, and other recreational activities and operations. They also lease out a restaurant facility and office space within their primary building.

Note 2. Summary of Significant Accounting Policies

This summary of significant accounting policies of Continental Country Club, Inc., (the Association) is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management who is responsible for their integrity and objectivity. The Association uses the accrual method of accounting, which conforms to accounting principles generally accepted in the United States of America. Under the accrual method of accounting, revenues are recorded when earned and expenses when incurred.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Assessments and trade receivables

Assessment and trade receivables consist primarily of amounts billed for lot assessments. Lot assessment receivables are secured by the property of the homeowners. Additionally, there are trade accounts receivable for other services and functions provided by the Association to outside parties. The allowance for doubtful accounts is based upon management's estimates of uncollectible accounts and the Association's historical collection experience. Association members are subject to annual assessments to provide funds for the Association's operating expenses and future major repair and replacements. The Association's policy for delinquent assessments receivable includes sending a collection letter when the receivable is past due 30 and 60 days. A Notice to Lien letter is sent at 90 days and the Notice of Lien is filed at 120 days. The Association had past due assessments receivable of \$8,404 and \$8,466 at December 31, 2014 and 2013, respectively. Any excess assessments at year end are retained by the Association for use in future years.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2. Summary of Significant Accounting Policies, Continued

Inventory

Inventory consists of pro shop items, which are carried at the lower of cost or market.

Property and equipment

The cost of depreciable assets are capitalized and depreciated over their estimated useful lives. Depreciation is calculated using the straight-line method over the following useful lives:

Buildings	20 – 39 years
Improvements	15 – 39 years
Equipment	5 – 7 years
Office equipment	5 – 7 years

Lot Assessments

Lot assessments are levied by the Association at the beginning of each November for the following year and are due on January 1 of the following year and become delinquent on January 31. Generally, assessments are not restricted for a specific purpose but are used by the Association, along with the revenues generated from its other operations to maintain, preserve, and manage the property. The Association recognizes these lot assessments as revenue on a pro-rata basis during the year for which they are assessed. Deferred lot assessments consist of lot assessments billed and/or collected that have not yet been recognized as revenue.

Income taxes

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the years ended December 31, 2014 and 2013. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions, and capital transactions.

For federal tax purposes, the Association is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has graduated effective tax rates of 15% to 35% that are applied to net taxable income.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 2. Summary of Significant Accounting Policies, Continued

For state income tax purposes, the Association is also taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The tax rate that is applied to net taxable income is approximately 7%.

As of December 31, 2014, the tax years that remain subject to examination by taxing authorities begin with 2011.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

The management of the Association has evaluated subsequent events through March 16, 2015, the date which the financial statements were available to be issued.

Note 3. Cash and Cash Equivalents

The Association maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Association did have deposits (including certificates of deposit) that exceeded the federally insured limit of \$250,000 by \$958 and \$0 at December 31, 2014 and 2013, respectively. The Association's management does not believe it is exposed to any significant credit risk on cash.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 4. Assessments and Trade Receivables

Trade receivables at December 31, 2014 and 2013 consist of the following:

	2014	2013
Current and Past Due 0 to 30 Days	\$ 521,460	\$ 569,360
Past Due		
31 - 60 Days	-	446
61 - 90 Days	-	-
Over 90 Days	9,379	14,103
	\$ 530,839	\$ 583,909

Assessments and trade receivables are shown on the balance sheets net an allowance for bad debts in the amounts of \$3,000 and \$3,000 as of December 31, 2014 and 2013, respectively. The allowance for bad debts is an estimate and, as a result, it is reasonably possible that this estimate may change in the near term.

Note 5. Note Receivable

In January 2012 the Association sold its State of Arizona Series No. 6 spirituous liquor license to a new tenant who had entered into a lease agreement with the Association to operate a restaurant within the clubhouse building. In connection with that transaction, the Association accepted a \$90,000 promissory note receivable from the new tenant for the full purchase price of the license.

The promissory note calls for monthly payments of \$474 which includes interest at six percent. The first payment was due February 1, 2012 and the final payment, including a required balloon payment of \$89,422 was due December 31, 2013. However, the Association amended the promissory note effective January 1, 2014 to extend the payments terms. The new promissory note calls for the same monthly payments of \$474 which includes interest at six percent over fifty years. At the end of 2014 it was decided that the lease would be terminated. See Note 18.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 6. Investment in Flagstaff Golf Maintenance Company II, LLC

The Association together with the Flagstaff Golf Association, organized Flagstaff Golf Maintenance Company II, LLC, (FGMC). The purpose of FGMC is to maintain the Continental Country Club Golf Course and the Aspen Valley Golf Course. FGMC maintains the golf courses and charges the respective owners of the courses for the maintenance costs incurred on each course. Since the Association through ownership and representation of the FGMC Board, can exercise control over FGMC, the investment is accounted for using the equity method. FGMC is organized as a limited liability company that is taxed as a partnership. Accordingly, the distributive share of partnership income and losses flow through to its owners for federal and state income tax purposes.

Note 7. Right to Repurchase License / Obligation to Repurchase License

As referred to in Note 5 the Association sold its State of Arizona Series No. 6 spirituous liquor license in January 2012 to a new tenant and executed a promissory note receivable in connection with that transaction. That agreement requires that the Association repurchase the license for \$90,000 at the time the tenant vacates the property at the conclusion of the lease and any extensions there to. Therefore, the accompanying balance sheets include both an asset for the right to repurchase and a liability for the obligation to do the same. The amount of each is equal to the difference between the balance of the related note receivable (See Note 5) and \$90,000. See Note 18 for subsequent event. The balances at December 31, 2014 and 2013 are as follows:

	2014	2013
Required repurchase price of license	\$ 90,000	\$ 90,000
Less: Balance of note receivable	(88,644)	(89,444)
Right to Repurchase License / Obligation to Repurchase License	\$ 1,356	\$ 556

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 8. Bank Line of Credit

In October 2011, the Association entered into a bank line of credit agreement to borrow up to \$150,000 from Sunwest Bank at a variable interest rate. In February 2014, the Association renewed the same bank line of credit agreement with the same terms.

Note 9. Long-Term Debt

Note payable

The note payable at December 31, 2014 and 2013 consists of the following:

	2014	2013
<p>Note payable to Sunwest Bank. The loan was used to refinance a previous construction loan with a total loan commitment amount of \$1,400,000 with interest payments at 6.5 percent on the first 119 monthly payments of \$12,230 and one principal and interest payment of \$644,545 on October 19, 2021 with interest calculated on the unpaid principal balances using an interest rate based on the five (5) year treasury constant maturity as published in the Federal Reserve Statistical Release plus a margin of 4.500 percentage points. The loan contains a prepayment penalty and is secured by a deed of trust.</p>	1,194,826	1,260,478
	\$ 1,194,826	\$ 1,260,478
Less: current portion	(69,155)	(64,756)
	\$ 1,125,671	\$ 1,195,722

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 9. Long-Term Debt, Continued

The note payable matures over the next five years as follows:

2015	\$ 69,155
2016	73,639
2017	78,855
2018	84,212
2019	89,932
Thereafter	<u>799,033</u>
	<u>\$ 1,194,826</u>

The Sunwest Bank loan described on the previous page contains a restrictive covenant that requires the Association to maintain a minimum debt service ratio of 1.25 to 1.00 measured on an annual basis.

Capital lease payable

The Association leased a telephone system under a capital lease that expired in 2013. The asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is depreciated over the lower of its related lease term or its estimated productive life. Depreciation of assets under the capital lease is included in depreciation for 2014 and 2013. The telephone system held under the capital lease is included in equipment in the accompanying financial statements in the amount of \$20,645, net of accumulated depreciation of \$19,170 and \$16,221 at December 31, 2014 and 2013, respectively. The lease required monthly payments of \$403 and expired August 2013. Interest expense was \$71 for the year ended December 31, 2013. The capital lease was paid in full in 2013.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 10. Lake Elaine Improvements and Maintenance

During 2003 the Association sold a parcel of real property. As a condition of the sale, the Association agreed to utilize the proceeds from the sale and earnings thereon for future improvements and maintenance to Lake Elaine. The liability for future improvements and maintenance attributable to this sale at December 31, 2014 and 2013 is as follows:

	2014	2013
Beginning of year	\$ 155,981	\$ 169,553
Plus: Interest earned	77	78
Less: Improvements and maintenance	-	(13,650)
End of year	\$ 156,058	\$ 155,981

The money is held in a separate certificate of deposit and disbursements require the signature from a representative of the Association and the signature from a representative from a group that includes the buyer of the parcel.

Note 11. Income Taxes

During 2014 and 2013 income tax expense consisted of the following:

	2014	2013
Federal income tax	\$ -	\$ -
State income tax	50	50
	50	50
Deferred income tax expense (benefit)	10,000	35,000
Income tax expense (benefit)	\$ 10,050	\$ 35,050

Deferred income taxes result from the timing differences in recognition of depreciation for income tax and financial statement purposes, net operating losses that can be carried forward to offset future taxable income, and excess membership deductions available to offset future excess taxable membership income.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 11. Income Taxes, Continued

The Association had a net deferred income tax asset in the amount of \$60,000 and \$70,000 as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013 this deferred income tax asset is shown net an allowance of \$293,000 and \$295,000, respectively.

The Association has available at December 31, 2014 and 2013, \$1,426,409 and \$1,354,535, respectively, of unused federal operating loss carry forwards that may be applied against future federal taxable income and that expire in various years from 2027 to 2034.

The Association has available at December 31, 2014 and 2013, \$959,119 and \$1,157,726, respectively, of unused state operating loss carry forwards that may be applied against future state taxable income and that expire in various years from 2015 to 2020.

The Association had excess membership deductions at December 31, 2014 and 2013 of \$0 and \$0, respectively, available to offset future excess taxable membership income.

Note 12. Related Party Transactions

The Association contracts with Flagstaff Golf Maintenance Company II, LLC (FGMC) a 50% owned Company of the Association, for golf course maintenance services. The Association recorded \$476,466 and \$504,389 in golf course maintenance expense for the years ended December 31, 2014 and 2013, respectively. Included in accrued expenses as of December 31, 2014 and 2013 was \$29,176 and \$35,709, respectively, which was owed to FGMC for golf course maintenance services.

On September 1, 2011, the Association entered into a twenty (20) year lease agreement with FGMC to lease land to FGMC to store equipment and supplies (See Note 14).

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 13. Operating Leases

The Association leases golf carts in the operation of its business. The Association entered into a sixty (60) month lease for new golf carts on November 1, 2011. The lease calls for monthly payments of \$6,763 that began on April 1, 2012 and the lease expires on October 31, 2016.

Future minimum lease payments under operating leases as of December 31, 2014 for each of the next five years and in the aggregate are as follows:

2015	\$ 81,156
2016	67,630
2017	-
2018	-
2019	-
Thereafter	-
	<hr/>
	\$ 148,786

Note 14. Rental Income

On September 1, 2011, the Association entered into a twenty (20) year lease agreement with Flagstaff Golf Maintenance Company II, LLC to lease land to FGMC to store equipment and supplies. The lease requires annual payments of \$1 and expires August 31, 2031. Additionally, FGMC shall reimburse to the Association all personal property taxes assessed on any improvements on the land attributable to FGMC and ten (10%) percent of the real property taxes assessed on the land. Rental income amounted to \$1 for 2014 and 2013 and included \$438 and \$583 related to reimbursement of 10% of the real property taxes assessed in 2014 and 2013, respectively.

On January 11, 2012, the Association entered into a twenty-three (23) month lease agreement with Valterza, Inc. doing business as Jake's on the Green (Jake's) to lease restaurant space located within the main clubhouse building under an operating lease, which expired on December 31, 2013. The lease calls for monthly rent payments of \$4,276 for the first eleven (11) months and \$4,526 for the second twelve (12) months. The lease may be renewed for a period of five (5) years. See Note 18 for subsequent events.

On August 29, 2012, the Association amended the restaurant lease agreement with Jake's to include lease of office space located within the main clubhouse building under an operating lease, which expired on December 31, 2013. The lease calls for monthly rent payments of \$161 effective July 1, 2012.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 14. Rental Income, Continued

On July 19, 2012, the Association entered into a five (5) year lease agreement with Babb Financial Group to lease office space located within the main clubhouse building under an operating lease beginning August 1, 2012. The lease calls for monthly rent payments of \$2,465 and expires July 31, 2017. The lease may be renewed for a period of two (2) years.

On May 1, 2014, the Association entered into a one (1) year lease agreement with Diamond Day Spa to lease the spa facilities. The lease calls for monthly rent payments of \$800 and expires April 30, 2015.

Minimum future rentals to be received on non-cancelable leases as of December 31, 2014 for each of the next five years and in the aggregate are:

2015	\$ 32,775
2016	29,575
2017	17,253
2018	1
2019	1
Thereafter	<u>10</u>
	<u><u>\$ 79,615</u></u>

Note 15. Future Major Repairs and Replacements

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 regular assessments, call for special assessments, or delay repairs and replacements until funds are available. The effect of this on future member assessments has not been determined.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 16. Contingencies

Lake Elaine

The Association has assumed responsibility for complying with a judgment brought against the developer concerning the maintenance of Lake Elaine. Land owners near Lake Elaine have contended that the Association has not complied with their responsibilities with respect to the maintenance of Lake Elaine and have periodically threatened litigation that could potentially name the Association as a defendant. It is not possible to estimate the amount of future loss the Association may incur in the event that the matter is pursued by these land owners or the possible economic consequences to the Association in the event that an unfavorable outcome is reached. Accordingly, no loss has been accrued on the accompanying financial statements.

The Association operates the Continental Country Club under the Arizona Pollutant Discharge Elimination System permit AZ0025895. The Association uses treated domestic wastewater stored in three effluent storage lakes located on the golf course for irrigation under the Reclaimed Water Agreement entered on July 10, 2010 with the City of Flagstaff. On August 19, 2013, the Association entered into a consent order with the Arizona Department of Environmental Quality (ADEQ) for violating its permit by exceeding the permit's discharge limit of cyanide and selenium. As part of this consent order, the Association must comply by reporting to ADEQ a written plan to address the violations cited as well as other reporting requirements as outlined in the consent order. The Association met the written plan requirement on October 14, 2013. By June 30, 2014, the Association had met the requirement of submitting to ADEQ the analytical results that demonstrated that the concentration levels in the effluent were in compliance with the Arizona Pollutant Discharge Elimination System permit AZ0025895. On October 16, 2014 the ADEQ terminated the consent order due to satisfaction of the requirements.

Note 17. Going Concern

The accompanying financial statements have been prepared assuming that the Association will continue as a going concern. However, the Association has sustained substantial operating losses in recent years. In addition, the Association has used substantial amounts of working capital in its operations, including amounts that had previously been designated for future repairs and replacements. At December 31, 2014, current liabilities exceeded current assets by \$357,789. At December 31, 2013, current liabilities exceeded current assets by \$419,587. As discussed in Note 9, at December 31, 2014 and 2013, the Association has a note payable to Sunwest Bank. A significant portion of the Association's operating assets are pledged as collateral for this note, and foreclosure or a negative modification of the terms of the loan agreement by the bank would seriously impair the Association's ability to continue as a going concern.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon the continued operations of the Association, which in turn is dependent upon the Association's ability to meet its financing requirements and the success of its future operations.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 17. Going Concern, Continued

Management believes that increased membership assessments, which were voted on and approved by the members during 2014, as well as improvements to golf operations provide the opportunity for the Association to continue as a going concern.

Note 18. Subsequent Events

As of January 1, 2015, the lease between Jake's and the Association was terminated. A new lease was signed January 1, 2015 with Oakmont F&B, LLC for the premises for the period beginning January 1, 2015 through April 15, 2020.

On December 4, 2014 the Association entered into an agreement with OB Sports, a golf course management company, to provide management, marketing and consulting services to the Association beginning on January 1, 2015. A monthly base fee of \$2,000 will be paid to the company during 2015.

See independent accountants' review report.

SUPPLEMENTAL INFORMATION

CONTINENTAL COUNTRY CLUB, INC.
SCHEDULES OF OPERATING EXPENSES
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING EXPENSES		
Advertising and promotion	\$ 18,673	\$ 26,264
Amortization	3,147	4,838
Bad debt expense	1,968	2,462
Bank charges	23,093	22,588
Board expenses	641	582
Cleaning and janitorial	7,021	8,363
Depreciation	166,051	211,066
Dues and publications	2,458	2,437
Employee benefits	21,770	22,427
Entertainment	299	1,944
Equipment not capitalized	2,568	1,794
Equipment rent	12,664	8,268
Event expense	5,051	5,432
Golf cart lease	55,493	54,106
Golf course maintenance	476,466	504,389
Insurance - general liability	58,977	35,580
Insurance - vehicle	1,056	840
Interest expense	83,993	88,100
Lake Elaine expense	141,986	169,382
Newsletter expense	3,488	2,968
Office supplies	4,519	4,028
Other taxes	1,404	2,145
Payroll taxes	29,229	32,399
Pool expense	106	784
Postage and freight	12,995	9,320
Printing and production	41	42
Professional expense	25,531	23,816
Property tax	28,493	27,199
Repair and maintenance - buildings	16,406	21,121
Repair and maintenance - equipment	17,797	27,158
Repair and maintenance - grounds	394	850
Repair and maintenance - irrigation	15,208	13,801
Repair and maintenance - golf carts	2,637	1,941

(Continued)

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
SCHEDULES OF OPERATING EXPENSES (Continued)
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Salaries and wages	336,886	368,012
Special projects	523	9,364
Subcontractor expense	122,902	109,721
Supplies	24,783	18,252
Telephone	10,131	10,128
Trash removal	2,498	3,407
Travel and mileage	-	33
Uniforms	3,212	2,047
Utilities	216,870	234,313
Vehicle expense	2,062	2,380
Walnut Canyon Lake expense	42,129	45,181
Workers' compensation	4,428	7,584
	<u>\$ 2,008,047</u>	<u>\$ 2,148,856</u>

See independent accountants' review report.