

**CONTINENTAL COUNTRY CLUB, INC.**

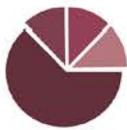
**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2015 AND 2014**

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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 financial statements of Continental Country Club, Inc. (a homeowners' association), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association 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'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.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountants' Conclusion on the Financial Statements**

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 accordance with accounting principles generally accepted in the United States of America.

### **Known Departure From Accounting Principles Generally Accepted in the United States of America**

Accounting principles generally accepted in the United States of America require management to assess whether the Association has a controlling interest in any entities in which the Association has a variable interest in order to determine if those entities should be consolidated. Management has not performed the required assessment and therefore, if there are variable interest entities for which the Association is the primary beneficiary, has not consolidated those entities. Although management has not determined the effects on the financial statements of the failure to perform the required assessment, many elements in the

financial statements may have been materially affected had management determined that the Association is the primary beneficiary of any variable interest entities.

**Required Supplementary Information**

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by that missing information.

*Hinton Burdick, PLLC*

HintonBurdick, PLLC

March 18, 2016

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**CONTINENTAL COUNTRY CLUB, INC.**  
**BALANCE SHEETS**  
**December 31, 2015 and 2014**

<b>ASSETS</b>		
	<b>2015</b>	<b>2014</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 277,685	\$ 111,507
Certificate of deposit	88,879	88,675
Assessments and trade receivables, net	796,615	527,839
Note receivable, current portion	307	400
Inventory	35,779	23,815
Prepaid expenses	11,229	15,143
<b>Total current assets</b>	<b>1,210,494</b>	<b>767,379</b>
<b>Property and equipment</b>		
Land	443,619	443,619
Buildings	1,590,466	1,590,466
Equipment	370,355	334,780
Improvements	3,327,184	3,221,425
Office equipment	42,096	39,164
	5,773,720	5,629,454
Less: accumulated depreciation	(4,076,197)	(3,910,582)
<b>Net property and equipment</b>	<b>1,697,523</b>	<b>1,718,872</b>
<b>Other assets</b>		
Certificate of deposit - Lake Elaine improvements and maintenance	156,125	156,058
Investment in FGMC	212,154	228,698
Deferred income tax asset	40,000	60,000
Loan fees, net of accumulated amortization of \$60,467 and \$42,374	18,093	21,240
Note receivable, long-term portion	89,475	88,244
Right to repurchase license	218	1,356
<b>Total other assets</b>	<b>516,065</b>	<b>555,596</b>
<b>Total assets</b>	<b>\$ 3,424,082</b>	<b>\$ 3,041,847</b>

See accompanying notes and independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**BALANCE SHEETS (Continued)**  
**December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 81,883	\$ 130,119
Accrued expenses	53,511	53,516
Deferred lot assessments	1,194,362	872,378
Current portion of note payable	73,639	69,155
<b>Total current liabilities</b>	<b>1,403,395</b>	<b>1,125,168</b>
<b>Long-term liabilities</b>		
Note payable, net of current portion	1,050,554	1,125,671
Lake Elaine improvements and maintenance	156,125	156,058
Advance deposit	3,500	4,500
Obligation to repurchase license	218	1,356
<b>Total long-term liabilities</b>	<b>1,210,397</b>	<b>1,287,585</b>
<b>Total liabilities</b>	<b>2,613,792</b>	<b>2,412,753</b>
<b>Members' equity</b>		
Undesignated	810,290	629,094
<b>Total members' equity</b>	<b>810,290</b>	<b>629,094</b>
<b>Total liabilities and members' equity</b>	<b>\$ 3,424,082</b>	<b>\$ 3,041,847</b>

See accompanying notes and independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Revenues</b>		
Golf course revenue	\$ 927,694	\$ 748,298
Membership revenue	1,107,767	963,948
Newsletter revenue	-	1,878
Other revenue	13,263	8,268
Pro shop revenue	77,323	73,479
Property management fees	10,530	10,440
Recreation revenue	50,903	22,200
Transfer and inspection fees	119,550	123,300
<b>Total revenues</b>	<u>2,307,030</u>	<u>1,951,811</u>
<b>Cost of sales</b>	<u>52,711</u>	<u>57,127</u>
<b>Gross profit</b>	2,254,319	1,894,684
<b>Operating expenses</b>	<u>2,109,385</u>	<u>2,008,047</u>
<b>Income/(Loss) from operations</b>	<u>144,934</u>	<u>(113,363)</u>
<b>Other revenues and expenses</b>		
Equity in loss of FGMC	(31,976)	(23,949)
Interest revenue	6,051	8,226
Miscellaneous revenue	277	410
Miscellaneous expense	(4,307)	(2,502)
Rental revenue	86,267	90,926
<b>Total other revenues and expenses</b>	<u>56,312</u>	<u>73,111</u>
<b>Gain/(Loss) before income taxes</b>	201,246	(40,252)
<b>Income tax expense</b>	<u>(20,050)</u>	<u>(10,050)</u>
<b>Net income/(loss)</b>	<u>\$ 181,196</u>	<u>\$ (50,302)</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, 2015 and 2014**

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**For the Year Ended December 31, 2014**

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

**For the Year Ended December 31, 2015**

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Members' equity, beginning of year	\$ 629,094
Net income	<u>181,196</u>
Members' equity, end of year	<u><u>\$ 810,290</u></u>

See accompanying notes and independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Operating revenue received	\$ 2,357,111	\$ 2,060,885
Interest received	5,847	8,042
Rental revenue received	86,267	34,628
Miscellaneous revenue received	(4,030)	(2,092)
Operating costs paid	(1,970,252)	(1,824,401)
Interest paid	(76,245)	(83,993)
Income taxes paid	(50)	(50)
	<b>398,648</b>	<b>193,019</b>
<b>Investing activities</b>		
Purchase of equipment	(144,267)	(5,181)
Payment on employee advances	-	1,600
Proceeds from note receivable	(1,138)	800
Contributed capital to FGMC	(15,432)	(16,214)
	<b>(160,837)</b>	<b>(18,995)</b>
<b>Financing activities</b>		
Advance on bank line of credit	-	75,000
Payment on bank line of credit	-	(110,000)
Advance deposit applied	(1,000)	-
Payment of long-term debt	(70,633)	(65,652)
	<b>(71,633)</b>	<b>(100,652)</b>
<b>Net change in cash and cash equivalents</b>	<b>166,178</b>	<b>73,372</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>111,507</b>	<b>38,135</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 277,685</b>	<b>\$ 111,507</b>

See accompanying notes and independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**STATEMENTS OF CASH FLOWS (Continued)**  
**For the Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Reconciliation of net loss to cash provided by operating activities</b>		
Net gain/(loss)	\$ 181,196	\$ (50,302)
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation	165,616	166,051
Amortization	3,147	3,147
Equity in loss of FGMC	31,976	23,949
Interest earned on Lake Elaine account	67	77
Interest income applied to certificates of deposit	(271)	(261)
Decrease (increase) in:		
Assessments and trade receivables, net	(268,776)	53,070
Inventory	(11,964)	43
Prepaid expenses	3,914	(11,376)
Deferred income tax asset	20,000	10,000
Increase (decrease) in:		
Accounts payable	(48,236)	12,765
Accrued expenses	(5)	(15,818)
Deferred lot assessments	321,984	1,674
<b>Total adjustments</b>	<b>217,452</b>	<b>243,321</b>
<b>Net cash provided by operating activities</b>	<b>\$ 398,648</b>	<b>\$ 193,019</b>
<b>Non-cash investing and financing activities</b>		
Change in investment in FGMC due to equity method of accounting for the investment	\$ (31,976)	\$ (29,395)

See accompanying notes and independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

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**Note 1.            Organization**

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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, 2015 and 2016. 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.

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**Note 2.            Summary of Significant Accounting Policies**

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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 \$12,603 and \$8,404 at December 31, 2015 and 2014, 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, 2015 and 2014**

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**Note 2. Summary of Significant Accounting Policies, Continued**

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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, which 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, 2015 and 2014. 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, 2015 and 2014**

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**Note 2.           Summary of Significant Accounting Policies, Continued**

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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, 2015, tax years remain subject to examination by taxing authorities beginning 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 18, 2016, the date which the financial statements were available to be issued.

Reclassifications

Certain items in the 2014 financial statements have been reclassified to be comparable to the presentation of items in the 2015 financial statements.

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**Note 3.           Cash and Cash Equivalents**

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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 \$56,028 and \$958 at December 31, 2015 and 2014, 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, 2015 and 2014**

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**Note 4.            Assessments and Trade Receivables**

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Trade receivables at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Current and Past Due 0 to 30 Days	\$ 785,479	\$ 521,460
Past Due		
31 - 60 Days	1,534	-
61 - 90 Days	12,863	-
Over 90 Days	<u>(261)</u>	<u>9,379</u>
	<u>\$ 799,615</u>	<u>\$ 530,839</u>

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, 2015 and 2014, 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.

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**Note 5.            Note Receivable**

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In January 2015 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 for fifty years.

See independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

**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 2015 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. The balances at December 31, 2015 and 2014 are as follows:

	2015	2014
Required repurchase price of license	\$ 90,000	\$ 90,000
Less: Balance of note receivable	(89,782)	(88,644)
Right to Repurchase License / Obligation to Repurchase License	\$ 218	\$ 1,356

**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 2015, the Association renewed the same bank line of credit agreement with the same terms.

See independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

**Note 9. Long-Term Debt**

Note payable

The note payable at December 31, 2015 and 2014 consists of the following:

	2015	2014
<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>	<p><u>1,124,193</u></p>	<p><u>1,194,826</u></p>
	<p>\$ 1,124,193</p>	<p>\$ 1,194,826</p>
<p>Less: current portion</p>	<p><u>(73,639)</u></p>	<p><u>(69,155)</u></p>
	<p><u>\$ 1,050,554</u></p>	<p><u>\$ 1,125,671</u></p>

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

2016	\$ 73,639
2017	78,855
2018	84,212
2019	89,932
2020	95,890
Thereafter	701,666
	\$ 1,124,194

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.

See independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

**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, 2015 and 2014 is as follows:

	2015	2014
Beginning of year	\$ 156,058	\$ 155,981
Plus: Interest earned	67	77
Less: Improvements and maintenance	-	-
End of year	\$ 156,125	\$ 156,058

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 2015 and 2014 income tax expense consisted of the following:

	2015	2014
Federal income tax	\$ -	\$ -
State income tax	50	50
	50	50
Deferred income tax expense (benefit)	20,000	10,000
Income tax expense (benefit)	\$ 20,050	\$ 10,050

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, 2015 and 2014**

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**Note 11.           Income Taxes, Continued**

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The Association had a net deferred income tax asset in the amount of \$40,000 and \$60,000 as of December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014 this deferred income tax asset is shown net an allowance of \$241,000 and \$293,000, respectively.

The Association has available at December 31, 2015 and 2014, \$1,379,934 and \$1,426,409, respectively, of unused federal operating loss carry forwards that may be applied against future federal taxable income and that expire in various years from 2028 to 2035.

The Association has available at December 31, 2015 and 2014, \$630,781 and \$959,199, respectively, of unused state operating loss carry forwards that may be applied against future state taxable income and that expire in various years from 2016 to 2021.

The Association had excess membership deductions at December 31, 2015 and 2014 of \$0 and \$0, respectively, available to offset future excess taxable membership income.

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**Note 12.           Related Party Transactions**

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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 \$452,639 and \$476,466 in golf course maintenance expense for the years ended December 31, 2015 and 2014, respectively. Included in accrued expenses as of December 31, 2015 and 2014 was \$31,315 and \$29,176, 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).

The Association's General Manager also served as the General Manager of Wyndham Flagstaff Resort (Wyndham) in Flagstaff, Arizona which includes Tanglewood Townhouse Association, Inc. and Ridgewood Property Owners' Association, Inc.. Wyndham paid the Association \$50,000 and \$50,000 during the years ended December 31, 2015 and 2014, respectively, for use of the Association's facilities by its week-unit members. In addition, during the year ended December 31, 2015, Wyndham financed the pool deck improvement project for the Association. The Association has recorded and accounts payable for this transaction. The liability is reduced by the amount of assessment dues owed by Wyndham to the Association. At December 31, 2015 the remaining liability balance owed to Wyndham by the Association was \$36,245.

See independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

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**Note 13. Operating Leases**

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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, 2015 for remainder of the lease are as follows:

2016	\$ 67,630
Thereafter	<u>-</u>
	<u>\$ 67,630</u>

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**Note 14. Rental Income**

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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 2015 and 2014 and included \$413 and \$438 related to reimbursement of 10% of the real property taxes assessed in 2015 and 2014, respectively.

On January 1, 2015, the Association entered into a sixty-four (64) month lease agreement with Oakmont F&B, LLC. to lease restaurant space located within the main clubhouse building under an operating lease, which expires on April 15, 2020. The lease calls for monthly rent payments of \$5,500 for the first twelve (12) months beginning April 1, 2015. Thereafter, the lease rate shall increase on April 1<sup>st</sup> of each year by the greater of 2% or the annual increase of the Consumer Price Index – All Urban Consumers (CPI-U) for the prior calendar year. However, in no event shall the increase exceed 3%. The lease may be renewed for three (3) five (5) year periods.

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 expired April 30, 2015.

See independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

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**Note 14. Rental Income, Continued**

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Minimum future rentals to be received on non-cancelable leases as of December 31, 2015 for each of the next five years and in the aggregate are:

2016	\$ 96,565
2017	85,563
2018	69,631
2019	70,950
2020	17,821
Thereafter	<u>10</u>
	<u>\$ 340,540</u>

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**Note 15. Future Major Repairs and Replacements**

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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, 2015 and 2014**

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**Note 16. Contingencies**

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Lake Elaine

The Association has assumed responsibility for complying with a judgment brought against the developer concerning the maintenance of Lake Elaine. Some of the land owners near Lake Elaine have contended that the Association has not complied with their responsibilities with respect to the maintenance of Lake Elaine according to this judgement. 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.

See independent accountants' review report.

**SUPPLEMENTAL INFORMATION**

**CONTINENTAL COUNTRY CLUB, INC.**  
**SCHEDULES OF OPERATING EXPENSES**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING EXPENSES</b>		
Advertising and promotion	\$ 29,838	\$ 18,673
Amortization	3,147	3,147
Bad debt expense	3,127	1,968
Bank charges	35,559	23,093
Board expenses	501	641
Cleaning and janitorial	12,286	7,021
Depreciation	165,616	166,051
Dues and publications	4,262	2,458
Employee benefits	22,929	21,770
Entertainment	9	299
Equipment not capitalized	9,923	2,568
Equipment rent	10,484	12,664
Event expense	1,754	5,051
Golf cart lease	54,973	55,493
Golf course maintenance	452,639	476,466
Insurance - general liability	52,121	58,977
Insurance - vehicle	1,056	1,056
Interest expense	76,245	83,993
Lake Elaine expense	168,372	141,986
Newsletter expense	9,301	3,488
Office supplies	4,672	4,519
Other taxes	266	1,404
Payroll taxes	30,826	29,229
Pool expense	1,952	106
Postage and freight	5,225	12,995
Printing and production	-	41
Professional expense	22,467	25,531
Property tax	28,493	28,493
Repair and maintenance - buildings	23,167	16,406
Repair and maintenance - equipment	44,099	17,797
Repair and maintenance - grounds	7,887	394
Repair and maintenance - irrigation	368	15,208
Repair and maintenance - golf carts	3,323	2,637

(Continued)

See independent accountants' review report.

**CONTINENTAL COUNTRY CLUB, INC.**  
**SCHEDULES OF OPERATING EXPENSES (Continued)**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Salaries and wages	335,338	336,886
Special projects	15,020	523
Subcontractor expense	152,786	122,902
Supplies	19,749	24,783
Telephone	9,282	10,131
Trash removal	1,899	2,498
Travel and mileage	810	-
Uniforms	3,837	3,212
Utilities	213,210	216,870
Vehicle expense	1,986	2,062
Walnut Canyon Lake expense	58,290	42,129
Workers' compensation	10,291	4,428
	<u>\$ 2,109,385</u>	<u>\$ 2,008,047</u>

See independent accountants' review report.