

CONTINENTAL COUNTRY CLUB, INC.

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

Table of Contents

Independent Accountants' Review Report	1
Financial Statements:	
Balance Sheets	4
Statements of Operations	6
Statements of Changes in Members' Equity	7
Statements of Cash Flows	8
Notes to the Financial Statements	10
Supplemental Information:	
Schedules of Operating Expenses	21

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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, 2016 and 2015, 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.

HintonBurdick, PLLC

HintonBurdick, PLLC

September 12, 2017

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CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS
December 31, 2016 and 2015

ASSETS		
	2016	2015
Current assets		
Cash and cash equivalents	\$ 369,617	\$ 277,685
Certificate of deposit	89,139	88,879
Assessments and trade receivables, net	784,758	796,615
Note receivable, current portion	326	307
Inventory	34,499	35,779
Prepaid expenses	28,449	11,229
Total current assets	1,306,788	1,210,494
Property and equipment		
Land	443,619	443,619
Buildings	1,590,466	1,590,466
Equipment	429,882	370,355
Improvements	3,382,476	3,327,184
Office equipment	46,106	42,096
	5,892,549	5,773,720
Less: accumulated depreciation	(4,256,528)	(4,076,197)
Net property and equipment	1,636,021	1,697,523
Other assets		
Certificate of deposit - Lake Elaine improvements and maintenance	156,187	156,125
Investment in FGMC	223,090	212,154
Deferred income tax asset	30,000	40,000
Loan fees, net of accumulated amortization of \$45,520 and \$42,374	14,947	18,093
Note receivable, long-term portion	89,149	89,475
Right to repurchase license	525	218
Total other assets	513,898	516,065
Total assets	\$ 3,456,707	\$ 3,424,082

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS (Continued)
December 31, 2016 and 2015

LIABILITIES AND MEMBERS' EQUITY		
	2016	2015
Current liabilities		
Accounts payable	\$ 91,817	\$ 81,883
Accrued expenses	130,145	53,511
Deferred lot assessments	1,178,723	1,194,362
Current portion of note payable	78,855	73,639
Total current liabilities	1,479,540	1,403,395
Long-term liabilities		
Note payable, net of current portion	959,598	1,050,554
Lake Elaine improvements and maintenance	156,187	156,125
Advance deposit	3,000	3,500
Obligation to repurchase license	525	218
Total long-term liabilities	1,119,310	1,210,397
Total liabilities	2,598,850	2,613,792
Members' equity		
Undesignated	857,857	810,290
Total members' equity	857,857	810,290
Total liabilities and members' equity	\$ 3,456,707	\$ 3,424,082

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Golf course revenue	\$ 996,337	\$ 927,694
Membership revenue	1,268,972	1,107,767
Other revenue	5,433	13,263
Pro shop revenue	97,468	77,323
Property management fees	11,440	10,530
Recreation revenue	55,595	50,903
Transfer and inspection fees	147,250	119,550
Total revenues	<u>2,582,495</u>	<u>2,307,030</u>
Cost of sales	<u>66,930</u>	<u>52,711</u>
Gross profit	2,515,565	2,254,319
Operating expenses	<u>2,517,548</u>	<u>2,109,385</u>
Income from operations	<u>(1,983)</u>	<u>144,934</u>
Other revenues and expenses		
Equity in loss of FGMC	(37,716)	(31,976)
Interest revenue	3,120	6,051
Miscellaneous revenue	2,137	277
Miscellaneous expense	(5,285)	(4,307)
Rental revenue	97,344	86,267
Total other revenues and expenses	<u>59,600</u>	<u>56,312</u>
Net income before income taxes	57,617	201,246
Income tax expense	<u>(10,050)</u>	<u>(20,050)</u>
Net income	<u>\$ 47,567</u>	<u>\$ 181,196</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, 2016 and 2015

For the Year Ended December 31, 2015

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

For the Year Ended December 31, 2016

Members' equity, beginning of year	\$ 810,290
Net income	<u>47,567</u>
Members' equity, end of year	<u><u>\$ 857,857</u></u>

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating activities		
Operating revenue received	\$ 2,573,628	\$ 2,357,111
Interest received	2,860	5,847
Rental revenue received	97,344	86,267
Miscellaneous revenue received	(3,148)	(4,030)
Operating costs paid	(2,258,674)	(1,970,252)
Interest paid	(66,615)	(76,245)
Income taxes paid	(50)	(50)
Net cash provided by operating activities	<u>345,345</u>	<u>398,648</u>
Investing activities		
Purchase of equipment	(118,828)	(144,267)
Proceeds from note receivable	307	(1,138)
Contributed capital to FGMC	(48,652)	(15,432)
Net cash applied to investing activities	<u>(167,173)</u>	<u>(160,837)</u>
Financing activities		
Advance deposit applied	(500)	(1,000)
Payment of long-term debt	(85,740)	(70,633)
Net cash applied to financing activities	<u>(86,240)</u>	<u>(71,633)</u>
Net change in cash and cash equivalents	91,932	166,178
Cash and cash equivalents, beginning of year	<u>277,685</u>	<u>111,507</u>
Cash and cash equivalents, end of year	<u>\$ 369,617</u>	<u>\$ 277,685</u>

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of net loss to cash provided by operating activities		
Net gain/(loss)	\$ 47,567	\$ 181,196
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation	180,330	165,616
Amortization	3,146	3,147
Equity in loss of FGMC	37,716	31,976
Interest earned on Lake Elaine account	62	67
Interest income applied to certificates of deposit	(322)	(271)
Decrease (increase) in:		
Assessments and trade receivables, net	11,857	(268,776)
Inventory	1,280	(11,964)
Prepaid expenses	(17,220)	3,914
Deferred income tax asset	10,000	20,000
Increase (decrease) in:		
Accounts payable	9,934	(48,236)
Accrued expenses	76,634	(5)
Deferred lot assessments	(15,639)	321,984
Total adjustments	297,778	217,452
Net cash provided by operating activities	\$ 345,345	\$ 398,648
Non-cash investing and financing activities		
Change in investment in FGMC due to equity method of accounting for the investment	\$ (37,716)	\$ (31,976)

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 and 2017. 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 \$16,886 and \$12,603 at December 31, 2016 and 2015, 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, 2016 and 2015

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, 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, 2016 and 2015. 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, 2016 and 2015

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, 2016, tax years remain subject to examination by taxing authorities beginning with 2013.

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 August 11, 2017, 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.

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 \$185,337 and \$56,028 at December 31, 2016 and 2015, 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, 2016 and 2015

Note 4. Assessments and Trade Receivables

Trade receivables at December 31, 2016 and 2015 consist of the following:

	2016	2015
Current and Past Due 0 to 30 Days	\$ 770,872	\$ 785,479
Past Due		
31 - 60 Days	-	1,534
61 - 90 Days	1,385	12,863
Over 90 Days	15,501	(261)
	\$ 787,758	\$ 799,615

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, 2016 and 2015, 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 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, 2016 and 2015

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, 2016 and 2015 are as follows:

	2016	2015
Required repurchase price of license	\$ 90,000	\$ 90,000
Less: Balance of note receivable	(89,475)	(89,782)
Right to Repurchase License / Obligation to Repurchase License	\$ 525	\$ 218

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, 2016 and 2015

Note 9. Long-Term Debt

Note payable

The note payable at December 31, 2016 and 2015 consists of the following:

	2016	2015
<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>	1,038,453	1,124,193
<p>Less: current portion</p>	\$ 1,038,453 (78,855)	\$ 1,124,193 (73,639)
	\$ 959,598	\$ 1,050,554

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

2017	78,855
2018	84,212
2019	89,932
2020	95,890
2021	689,564
	\$ 1,038,453

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, 2016 and 2015

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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Beginning of year	\$ 156,125	\$ 156,058
Plus: Interest earned	62	67
Less: Improvements and maintenance	<u>-</u>	<u>-</u>
End of year	<u>\$ 156,187</u>	<u>\$ 156,125</u>

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 2016 and 2015 income tax expense consisted of the following:

	<u>2016</u>	<u>2015</u>
Federal income tax	\$ -	\$ -
State income tax	<u>50</u>	<u>50</u>
	50	50
Deferred income tax expense (benefit)	<u>10,000</u>	<u>20,000</u>
Income tax expense (benefit)	<u>\$ 10,050</u>	<u>\$ 20,050</u>

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, 2016 and 2015

Note 11. Income Taxes, Continued

The Association had a net deferred income tax asset in the amount of \$30,000 and \$40,000 as of December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015 this deferred income tax asset is shown net an allowance of \$253,000 and \$241,000, respectively.

The Association has available at December 31, 2016 and 2015, \$1,403,837 and \$1,379,934 respectively, of unused federal operating loss carry forwards that may be applied against future federal taxable income and that expire in various years from 2029 to 2036.

The Association has available at December 31, 2016 and 2015, \$624,597 and \$630,781, respectively, of unused state operating loss carry forwards that may be applied against future state taxable income and that expire in various years from 2017 to 2022.

The Association had excess membership deductions at December 31, 2016 and 2015 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 \$453,586 and \$452,639 in golf course maintenance expense for the years ended December 31, 2016 and 2015, respectively. Included in accrued expenses as of December 31, 2015 and 2014 was \$33,901 and \$31,315, 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 prior 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, 2016 and 2015, 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 an accounts payable for this transaction. The liability is reduced by the amount of assessment dues owed by Wyndham to the Association. At December 31, 2016 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, 2016 and 2015

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 expired on October 31, 2016.

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 2016 and 2015 and included \$422 and \$413 related to reimbursement of 10% of the real property taxes assessed in 2016 and 2015, 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 1st 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.

Minimum future rentals to be received on non-cancelable leases as of December 31, 2016 for each of the next five years and in the aggregate are:

2017	85,563
2018	69,631
2019	70,951
2020	17,821
2021	10
	<u>10</u>
	<u>\$ 243,976</u>

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

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.

Note 16. Contingencies

Lake Elaine

Some of the land owners near Lake Elaine have filed an action seeking a contempt of court order pursuant to the Judgment issued in SHULZ et. al. v. Continental Country Club, Inc., - CV 87-42997. Their allegation is that the Association has not complied with its alleged responsibilities with respect to the maintenance of Lake Elaine pursuant to the Judgment issued in SHULZ et. al. v. Continental Country Club, Inc., - CV 87-42997. It is not possible to estimate the amount of future loss or the possible economic consequences the Association may incur in the event that an unfavorable outcome is reached. Accordingly, no loss has been accrued on the accompanying financial statements.

See independent accountants' review report.

SUPPLEMENTAL INFORMATION

CONTINENTAL COUNTRY CLUB, INC.
SCHEDULES OF OPERATING EXPENSES
For the Years Ended December 31, 2016 and 2015

OPERATING EXPENSES	2016	2015
Advertising and promotion	\$ 47,685	\$ 29,838
Amortization	3,146	3,147
Bad debt expense	5,085	3,127
Bank charges	49,933	35,559
Board expenses	787	501
Cleaning and janitorial	24,018	12,286
Depreciation	180,330	165,616
Dues and publications	7,713	4,262
Employee benefits	35,391	22,929
Entertainment	60	9
Equipment rent	13,342	10,484
Event expense	7,998	1,754
Golf cart lease	47,482	54,973
Golf course maintenance	453,586	452,639
Insurance - general liability	89,554	52,121
Insurance - vehicle	1,056	1,056
Interest expense	66,615	76,245
Lake Elaine expense	160,626	168,372
Newsletter expense	17,238	9,301
Office supplies	4,103	4,672
Other taxes	-	266
Payroll taxes	42,765	30,826
Pool expense	3,003	1,952
Postage and freight	6,813	5,225
Professional expense	167,319	22,467
Property tax	24,101	28,493
Repair and maintenance - buildings	28,700	23,167
Repair and maintenance - equipment	31,990	44,099
Repair and maintenance - grounds	16,253	7,887
Repair and maintenance - irrigation	356	368
Repair and maintenance - golf carts	6,823	3,323

(Continued)

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
SCHEDULES OF OPERATING EXPENSES (Continued)
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Salaries and wages	469,358	335,338
Small equipment	22,213	9,923
Special projects	11,613	15,020
Subcontractor expense	109,014	152,786
Supplies	19,473	19,749
Telephone	9,946	9,282
Trash removal	3,759	1,899
Travel and mileage	2,013	810
Uniforms	3,209	3,837
Utilities	246,683	213,210
Vehicle expense	4,024	1,986
Walnut Canyon Lake expense	61,788	58,290
Workers' compensation	10,584	10,291
	<u>\$ 2,517,548</u>	<u>\$ 2,109,385</u>

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