

CONTINENTAL COUNTRY CLUB, INC.

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

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	22

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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, 2017 and 2016, 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

April 24, 2018

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CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS
December 31, 2017 and 2016

ASSETS	2017	2016
Current assets		
Cash and cash equivalents	\$ 368,780	\$ 369,617
Certificate of deposit	89,363	89,139
Assessments and trade receivables, net	733,369	784,758
Note receivable, current portion	346	326
Inventory	36,695	34,499
Prepaid expenses	27,563	28,449
Total current assets	1,256,116	1,306,788
Property and equipment		
Land	443,619	443,619
Buildings	1,590,466	1,590,466
Equipment	470,042	429,882
Improvements	3,462,752	3,382,476
Office equipment	46,106	46,106
	6,012,985	5,892,549
Less: accumulated depreciation	(4,439,378)	(4,256,528)
Net property and equipment	1,573,607	1,636,021
Other assets		
Restricted cash - Capital improvement	107,839	-
Certificate of deposit - Lake Elaine improvements and maintenance	156,249	156,187
Investment in FGMC	214,033	223,090
Deferred income tax asset	32,000	30,000
Loan fees, net of accumulated amortization of \$48,667 and \$45,520	11,800	14,947
Note receivable, long-term portion	88,804	89,149
Right to repurchase license	850	525
Total other assets	611,575	513,898
Total assets	\$ 3,441,298	\$ 3,456,707

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS (Continued)
December 31, 2017 and 2016

LIABILITIES AND MEMBERS' EQUITY

	2017	2016
Current liabilities		
Accounts payable	\$ 121,896	\$ 91,817
Accrued expenses	161,997	130,145
Deferred lot assessments	1,175,608	1,178,723
Current portion of note payable	91,272	78,855
Total current liabilities	1,550,773	1,479,540
Long-term liabilities		
Note payable, net of current portion	870,613	959,598
Lake Elaine improvements and maintenance	156,249	156,187
Advance deposit	2,500	3,000
Obligation to repurchase license	850	525
Total long-term liabilities	1,030,212	1,119,310
Total liabilities	2,580,985	2,598,850
Members' equity		
Undesignated	752,474	857,857
Restricted for future repairs and replacements	107,839	-
Total members' equity	860,313	857,857
Total liabilities and members' equity	\$ 3,441,298	\$ 3,456,707

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Golf course revenue	\$ 1,040,322	\$ 996,337
Membership revenue	1,256,219	1,268,972
Other revenue	8,123	5,433
Pro shop revenue	89,251	97,468
Property management fees	5,320	11,440
Recreation revenue	77,838	55,595
Transfer and inspection fees	167,175	147,250
Total revenues	<u>2,644,248</u>	<u>2,582,495</u>
Cost of sales	<u>68,951</u>	<u>66,930</u>
Gross profit	2,575,297	2,515,565
Operating expenses	<u>2,639,281</u>	<u>2,517,548</u>
Income from operations	<u>(63,984)</u>	<u>(1,983)</u>
Other revenues and expenses		
Equity in loss of FGMC	(49,736)	(37,716)
Interest revenue	12,213	3,120
Miscellaneous revenue	-	2,137
Miscellaneous expense	(3,441)	(5,285)
Rental revenue	105,179	97,344
Gain on disposition of property	275	-
Total other revenues and expenses	<u>64,490</u>	<u>59,600</u>
Net income before income taxes	506	57,617
Income tax expense	<u>1,950</u>	<u>(10,050)</u>
Net income	<u>\$ 2,456</u>	<u>\$ 47,567</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, 2017 and 2016

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>

For the Year Ended December 31, 2017

Members' equity, beginning of year	\$ 857,857
Net income	<u>2,456</u>
Members' equity, end of year	<u><u>\$ 860,313</u></u>

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating activities		
Operating revenue received	\$ 2,692,275	\$ 2,573,628
Interest received	11,989	2,860
Rental revenue received	105,179	97,344
Miscellaneous revenue received	(3,441)	(3,148)
Operating costs paid	(2,413,963)	(2,258,674)
Interest paid	(43,361)	(66,615)
Income taxes paid	(50)	(50)
	348,628	345,345
Investing activities		
Purchase of equipment	(124,479)	(118,828)
Sale of equipment	275	-
Proceeds from note receivable	325	307
Contributed capital to FGMC	(40,680)	(48,652)
	(164,559)	(167,173)
Financing activities		
Advance deposit applied	(500)	(500)
Payment of long-term debt	(76,567)	(85,740)
	(77,067)	(86,240)
Net change in cash and cash equivalents	107,002	91,932
Cash and cash equivalents, beginning of year	369,617	277,685
Cash and cash equivalents, end of year	\$ 476,619	\$ 369,617

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of net loss to cash provided by operating activities		
Net gain/(loss)	\$ 2,456	\$ 47,567
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation	186,893	180,330
Amortization	3,147	3,146
Equity in loss of FGMC	49,736	37,716
Gain on disposition of fixed assets	(275)	-
Interest earned on Lake Elaine account	62	62
Interest income applied to certificates of deposit	(286)	(322)
Decrease (increase) in:		
Assessments and trade receivables, net	51,389	11,857
Inventory	(2,196)	1,280
Prepaid expenses	886	(17,220)
Deferred income tax asset	(2,000)	10,000
Increase (decrease) in:		
Accounts payable	30,079	9,934
Accrued expenses	31,852	76,634
Deferred lot assessments	(3,115)	(15,639)
Total adjustments	346,172	297,778
Net cash provided by operating activities	\$ 348,628	\$ 345,345
Non-cash investing and financing activities		
Change in investment in FGMC due to equity method of accounting for the investment	\$ (49,736)	\$ (31,976)

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 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.

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 \$17,345 and \$16,886 at December 31, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016. 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 21% that are applied to net taxable income.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017, tax years remain subject to examination by taxing authorities beginning with 2014.

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 April 24, 2018, the date which the financial statements were available to be issued.

Note 3. Cash and Restricted Cash

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 \$306,292 and \$185,337 at December 31, 2017 and 2016, respectively. The Association's management does not believe it is exposed to any significant credit risk on cash.

Cash listed as restricted cash is comprised of transfer fees designated by Board resolution for future major repairs and replacements. The Association has a separate bank account to hold these restricted funds. The balance of the restricted funds as of December 31, 2017 was \$107,839.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 4. Assessments and Trade Receivables

Trade receivables at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Current and Past Due 0 to 30 Days	\$ 719,024	\$ 770,872
Past Due		
31 - 60 Days	-	-
61 - 90 Days	150	1,385
Over 90 Days	<u>17,195</u>	<u>15,501</u>
	<u>\$ 736,369</u>	<u>\$ 787,758</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, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016 are as follows:

	2017	2016
Required repurchase price of license	\$ 90,000	\$ 90,000
Less: Balance of note receivable	(89,150)	(89,475)
Right to Repurchase License / Obligation to Repurchase License	\$ 850	\$ 525

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, 2017 and 2016

Note 9. Long-Term Debt

Note payable

The note payable at December 31, 2017 and 2016 consists of the following:

	2017	2016
<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 4.25 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 style="border-top: 1px solid black;">961,885</p>	<p style="border-top: 1px solid black;">1,038,453</p>
	<p>\$ 961,885</p>	<p>\$ 1,038,453</p>
<p>Less: current portion</p>	<p style="border-top: 1px solid black;">(91,272)</p>	<p style="border-top: 1px solid black;">(78,855)</p>
	<p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 870,613</p>	<p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 959,598</p>

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

2018	91,272
2019	89,932
2020	95,890
2021	95,890
2022	588,901
	<p>\$ 961,885</p>

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, 2017 and 2016

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, 2017 and 2016 is as follows:

	2017	2016
Beginning of year	\$ 156,187	\$ 156,125
Plus: Interest earned	62	62
Less: Improvements and maintenance	-	-
End of year	\$ 156,249	\$ 156,187

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 2017 and 2016 income tax expense consisted of the following:

	2017	2016
Federal income tax	\$ -	\$ -
State income tax	50	50
	50	50
Deferred income tax expense (benefit)	(2,000)	10,000
Income tax expense (benefit)	\$ (1,950)	\$ 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, 2017 and 2016

Note 11. Income Taxes, Continued

The Association had a net deferred income tax asset in the amount of \$32,000 and \$30,000 as of December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016 this deferred income tax asset is shown net an allowance of \$342,000 and \$253,000, respectively.

The Association has available at December 31, 2017 and 2016, \$1,550,536 and \$1,403,837 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, 2017 and 2016, \$486,048 and \$624,597, respectively, of unused state operating loss carry forwards that may be applied against future state taxable income and that expire in various years from 2018 to 2023.

The Association had excess membership deductions at December 31, 2017 and 2016 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 \$458,229 and \$453,586 in golf course maintenance expense for the years ended December 31, 2017 and 2016, respectively. Included in accrued expenses as of December 31, 2017 and 2016 was \$25,183 and \$33,901, 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 \$51,255 and \$50,000 during the years ended December 31, 2017 and 2016, 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, 2017 the remaining liability balance owed to Wyndham by the Association was \$0 as the liability was paid off in 2017.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 October 20, 2016. The lease calls for monthly payments of \$6,438 that began on April 1, 2017 and the lease expires on October 31, 2021.

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 2017 and 2016 and included \$435 and \$422 related to reimbursement of 10% of the real property taxes assessed in 2017 and 2016, 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. An override provision exists where Oakmont F&B, LLC will pay the Association 6% of gross sales over \$1.9 million per year.

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 expired July 31, 2017.

On June 28, 2017, The Association entered into a one (1) year lease agreement with Babb Financial Group to lease office space located within the main clubhouse building under an operating lease beginning August 1, 2017. The lease calls for monthly rent payments of \$2,074 and expires July 31, 2018.

On July 17, 2017, The Association entered into a one (1) year lease agreement with Frank H. Windes and Associates to lease office space located within the main clubhouse building under an operating lease beginning August 1, 2017. The lease calls for monthly rent payments of \$656 and expires July 31, 2018.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 14. Rental Income, Continued

Minimum future rentals to be received on non-cancelable leases as of December 31, 2017 for each of the next five years and in the aggregate are:

2018	88,741
2019	70,951
2020	17,821
2021	1
2022	1
Thereafter	<u>8</u>
	<u>\$ 177,523</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, 2017 and 2016

Note 16. Contingencies

Lake Elaine

Schulz v. Fairfield Sunrise Village, Inc., et al. Case No. CV 87-42997. The Plaintiffs filed an Application to Show Cause against Continental Country Club, Inc. (“CCC”) on February 15, 2017, seeking to hold CCC in contempt of a 1990 Amended Settlement Agreement and Judgment (“Judgment”) regarding the water level of Lake Elaine. CCC is vigorously defending against the Application. Plaintiffs are requesting the Court to impose a daily sanction of \$500 upon CCC. No loss has been accrued on the accompanying financial statements.

SID Holdings, LLC v. Continental Country Club, Inc. Case No. CV2017-00540. The Plaintiff filed a Complaint for Damages against Continental Country Club, Inc. (“CCC”). The Plaintiff alleges violation of A.R.S. 33-1806 and Breach of Contract against CCC. No amount of money has yet been claimed. CCC is vigorously defending against the lawsuit. 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, 2017 and 2016

OPERATING EXPENSES	2017	2016
Advertising and promotion	\$ 34,772	\$ 47,685
Amortization	3,147	3,146
Bad debt expense	247	5,085
Bank charges	35,708	49,933
Board expenses	4,327	787
Cleaning and janitorial	39,406	24,018
Depreciation	186,893	180,330
Driving range balls	3,712	-
Dues and publications	4,853	7,713
Employee benefits	20,508	35,391
Entertainment	5,417	60
Equipment rent	12,071	13,342
Event expense	19,741	7,998
Golf cart lease	51,762	47,482
Golf course maintenance	458,229	453,586
Insurance - general liability	54,442	89,554
Insurance - vehicle	1,056	1,056
Interest expense	43,361	66,615
Lake Elaine expense	21,152	160,626
Newsletter expense	4,817	17,238
Office supplies	7,410	4,103
Other taxes	5,727	-
Payroll taxes	48,253	42,765
Pool expense	9,602	3,003
Postage and freight	8,018	6,813
Professional expense	355,462	167,319
Property tax	26,180	24,101
Repair and maintenance - buildings	37,249	28,700
Repair and maintenance - equipment	19,912	31,990
Repair and maintenance - grounds	14,642	16,253
Repair and maintenance - irrigation	6,070	356
Repair and maintenance - golf carts	717	6,823

(Continued)

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
SCHEDULES OF OPERATING EXPENSES (Continued)
For the Years Ended December 31, 2017 and 2016

	2017	2016
Salaries and wages	525,457	469,358
Small equipment	7,011	22,213
Special projects	28,352	11,613
Subcontractor expense	83,460	109,014
Supplies	26,361	19,473
Telephone	10,761	9,946
Trash removal	1,366	3,759
Travel and mileage	6,265	2,013
Uniforms	3,515	3,209
Utilities	311,049	246,683
Vehicle expense	2,881	4,024
Walnut Canyon Lake expense	73,455	61,788
Workers' compensation	14,485	10,584
	\$ 2,639,281	\$ 2,517,548

See independent accountants' review report.