

CONTINENTAL COUNTRY CLUB, INC.

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

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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, 2018 and 2017, 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 as it relates to Flagstaff Golf Maintenance Company II, LLC (FGMC) (see note 6) and has not consolidated that entity. 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.



Stephens & Company, PLLC
May 7, 2019

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CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS
December 31, 2018 and 2017

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	\$ 556,248	\$ 368,780
Certificate of deposit	89,567	89,363
Assessments and trade receivables, net	773,793	733,369
Note receivable, current portion	367	346
Inventory	43,828	36,695
Prepaid expenses	11,745	27,563
Total current assets	1,475,548	1,256,116
Property and equipment		
Land	443,619	443,619
Buildings	1,590,466	1,590,466
Equipment	476,770	470,042
Improvements	3,515,062	3,462,752
Office equipment	46,106	46,106
	6,072,023	6,012,985
Less: accumulated depreciation	(4,625,813)	(4,439,378)
Net property and equipment	1,446,210	1,573,607
Other assets		
Restricted cash - Capital improvement	121,392	107,839
Certificate of deposit - Lake Elaine improvements and maintenance	156,311	156,249
Investment in FGMC	228,114	214,033
Deferred income tax asset	26,000	32,000
Loan fees, net of accumulated amortization of \$51,814 and \$48,667	8,653	11,800
Note receivable, long-term portion	88,437	88,804
Right to repurchase license	1,196	850
Total other assets	630,103	611,575
Total assets	\$ 3,551,861	\$ 3,441,298

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
BALANCE SHEETS (Continued)
December 31, 2018 and 2017

	2018	2017
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	\$ 82,225	\$ 121,896
Accrued expenses	204,711	161,997
Deferred lot assessments	1,167,044	1,175,608
Current portion of note payable	95,283	91,272
Total current liabilities	1,549,263	1,550,773
Long-term liabilities		
Note payable, net of current portion	775,330	870,613
Lake Elaine improvements and maintenance	156,311	156,249
Advance deposit	2,000	2,500
Obligation to repurchase license	1,196	850
Total long-term liabilities	934,837	1,030,212
Total liabilities	2,484,100	2,580,985
Members' equity		
Undesignated	946,369	752,474
Restricted for future repairs and replacements	121,392	107,839
Total members' equity	1,067,761	860,313
Total liabilities and members' equity	\$ 3,551,861	\$ 3,441,298

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Golf course revenue	\$ 1,008,461	\$ 1,040,322
Membership revenue	1,270,729	1,256,219
Other revenue	8,586	8,123
Pro shop revenue	106,876	89,251
Property management fees	-	5,320
Recreation revenue	101,508	77,838
Transfer and inspection fees	224,000	167,175
Total revenues	<u>2,720,160</u>	<u>2,644,248</u>
Cost of sales	<u>80,345</u>	<u>68,951</u>
Gross profit	2,639,815	2,575,297
Operating expenses	<u>2,503,369</u>	<u>2,639,281</u>
Income from operations	<u>136,446</u>	<u>(63,984)</u>
Other revenues and expenses		
Equity in loss of FGMC	(55,229)	(49,736)
Interest revenue	10,730	12,213
Miscellaneous expense	(2,441)	(3,441)
Rental revenue	123,992	105,179
Gain on disposition of property	-	275
Total other revenues and expenses	<u>77,052</u>	<u>64,490</u>
Net income before income taxes	213,498	506
Income tax expense	<u>(6,050)</u>	<u>1,950</u>
Net income	<u>\$ 207,448</u>	<u>\$ 2,456</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, 2018 and 2017

For the Year Ended December 31, 2018

Members' equity, beginning of year	\$ 860,313
Net income	<u>207,448</u>
Members' equity, end of year	<u><u>\$ 1,067,761</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, 2018 and 2017

	2018	2017
Operating activities		
Operating revenue received	\$ 2,671,172	\$ 2,692,275
Interest received	10,526	11,989
Rental revenue received	123,992	105,179
Miscellaneous revenue received	(2,441)	(3,441)
Operating costs paid	(2,342,841)	(2,413,963)
Interest paid	(39,564)	(43,361)
Income taxes paid	(50)	(50)
	420,794	348,628
Investing activities		
Purchase of equipment	(59,039)	(124,479)
Sale of equipment	-	275
Proceeds from note receivable	346	325
Contributed capital to FGMC	(69,310)	(40,680)
	(128,003)	(164,559)
Financing activities		
Advance deposit applied	(500)	(500)
Payment of long-term debt	(91,270)	(76,567)
	(91,770)	(77,067)
Net change in cash and cash equivalents	201,021	107,002
Cash and cash equivalents, beginning of year	476,619	369,617
Cash and cash equivalents, end of year	\$ 677,640	\$ 476,619

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of net income to cash provided by operating activities		
Net income/(loss)	\$ 207,448	\$ 2,456
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	186,435	186,893
Amortization	3,147	3,147
Equity in loss of FGMC	55,229	49,736
Gain on disposition of fixed assets	-	(275)
Interest earned on Lake Elaine account	62	62
Interest income applied to certificates of deposit	(267)	(286)
Decrease (increase) in:		
Assessments and trade receivables, net	(40,424)	51,389
Inventory	(7,133)	(2,196)
Prepaid expenses	15,818	886
Deferred income tax asset	6,000	(2,000)
Increase (decrease) in:		
Accounts payable	(39,671)	30,079
Accrued expenses	42,714	31,852
Deferred lot assessments	(8,564)	(3,115)
Total adjustments	<u>213,346</u>	<u>346,172</u>
Net cash provided by operating activities	<u>\$ 420,794</u>	<u>\$ 348,628</u>
Non-cash investing and financing activities		
Change in investment in FGMC due to equity method of accounting for the investment	<u>\$ (55,229)</u>	<u>\$ (49,736)</u>

See accompanying notes and independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 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

Assessments 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 \$31,742 and \$17,345 at December 31, 2018 and 2017, 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, 2018 and 2017

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, 2018 and 2017. 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 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, 2018 and 2017

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, 2018, tax years remain subject to examination by taxing authorities beginning with 2015.

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 May 7, 2019, 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 \$296,324 and \$306,292 at December 31, 2018 and 2017, 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, 2018 and 2017 was \$121,392 and \$107,839, respectively.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 4. Assessments and Trade Receivables

Assessments and current trade receivables at December 31, 2018 and 2017 consist of the following:

	2018	2017
Current and Past Due 0 to 30 Days	\$ 745,051	\$ 719,024
Past Due		
31 - 60 Days	2,500	-
61 - 90 Days	456	150
Over 90 Days	28,786	17,195
	\$ 776,793	\$ 736,369

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, 2018 and 2017, 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, 2018 and 2017

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, 2018 and 2017 are as follows:

	2018	2017
Required repurchase price of license	\$ 90,000	\$ 90,000
Less: Balance of note receivable	(88,804)	(89,150)
Right to Repurchase License / Obligation to Repurchase License	\$ 1,196	\$ 850

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, 2018 and 2017

Note 9. Long-Term Debt

Note payable

The note payable at December 31, 2018 and 2017 consists of the following:

	2018	2017
<p>Note payable to Sunwest Bank. The loan was used to refinance a previous construction loan with a total loan commitment amount of \$1,075,385 with interest at 4.25 percent on the monthly payments of \$10,903 and one principal and interest payment of \$598,419 on October 19, 2021. The loan contains a prepayment penalty and is secured by a deed of trust.</p>	<u>870,613</u>	<u>961,885</u>
<p>Less: current portion</p>	<p>\$ 870,613</p> <p><u>(95,283)</u></p>	<p>\$ 961,885</p> <p><u>(91,272)</u></p>
	<u>\$ 775,330</u>	<u>\$ 870,613</u>

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

2019	95,282
2020	99,379
2021	675,952
Thereafter	-
	\$ 870,613

The Sunwest Bank loan 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, 2018 and 2017

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, 2018 and 2017 is as follows:

	2018	2017
Beginning of year	\$ 156,249	\$ 156,187
Plus: Interest earned	62	62
End of year	\$ 156,311	\$ 156,249

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 2018 and 2017 income tax expense consisted of the following:

	2018	2017
Federal income tax	\$ -	\$ -
State income tax	50	50
	50	50
Deferred income tax expense (benefit)	6,000	(2,000)
Income tax expense (benefit)	\$ 6,050	\$ (1,950)

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, 2018 and 2017

Note 11. Income Taxes, Continued

The Association had a net deferred income tax asset in the amount of \$26,000 and \$32,000 as of December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017 this deferred income tax asset is shown net an allowance of \$283,000 and \$342,000, respectively.

The Association has available at December 31, 2018 and 2017, \$1,335,749 and \$1,550,536 respectively, of unused federal operating loss carry forwards that may be applied against future federal taxable income. Of that total, \$1,335,749 expires in various years through 2037. Operating losses generated in 2018 and future years have no expiration date, but is limited to offsetting no more than 80% of taxable income in any given year.

The Association has available at December 31, 2018 and 2017, \$258,452 and \$486,048 , respectively, of unused state operating loss carry forwards that may be applied against future state taxable income and that expire in various years from 2019 to 2024.

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 \$494,629 and \$458,229 in golf course maintenance expense for the years ended December 31, 2018 and 2017, respectively. Included in accrued expenses as of December 31, 2018 and 2017 was \$33,838 and \$25,183, 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 \$51,255 during the years ended December 31, 2018 and 2017, 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, 2018 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, 2018 and 2017

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 (FGMC) 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 2018 and 2017 and included \$437 and \$435 related to reimbursement of 10% of the real property taxes assessed in 2018 and 2017, 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 May 2, 2018, 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, 2018. The lease calls for monthly rent payments of \$2,123 and expires July 31, 2019.

On May 2, 2018, 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, 2018. The lease calls for monthly rent payments of \$672 and expires July 31, 2019.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 14. Rental Income, Continued

Minimum future rentals to be received on non-cancelable leases as of December 31, 2018 for each of the next five years and in the aggregate are:

2019	102,052
2020	89,850
2021	1
2022	1
2022	1
Thereafter	<u>9</u>
	<u>\$ 191,914</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. The board does designate \$1,000 from each transfer fee received for future repairs and maintenance and deposits these funds in a separate back account.

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 16. Contingencies

Lake Elaine

Schulz, et al. v. Continental Country Club & Estates, et al. - Case No. CV 87-42997.

On February 15, 2017, Co-Class Representatives filed an Application to Show Cause against Continental Country Club, Inc., seeking an Order of contempt from the Court with regard to the 1990 Amended Settlement Agreement and Judgment (“Judgment”) concerning the water level of Lake Elaine. The Co-Class Representatives are also requesting the Court to impose a daily sanction of \$500 upon the Association.

The Association has been ordered by the Court to drain and evaluate Lake Elaine, which should be completed before the end of 2019.

SID Holdings, LLC v. Continental Country Club, Inc., et al. - Case No. CV2017-00540. Plaintiff seeks monetary damages against the seller of the subject Lake-front property and Continental Country Club, Inc. with regard to the disclosure and performance of the Judgment concerning Lake Elaine. Plaintiff alleges a single breach of contract claim against Continental alleging nonperformance of its maintenance obligations under the Judgment. Plaintiff asserts rights under the Judgment claiming its predecessor in interest to the subject Lake-front property was a member of the original class. Plaintiffs have not provided a monetary amount for their alleged damages.

It is deemed possible that the Association may experience significant negative financial impacts as a result of the litigation; however, the effects of any pending or threatened litigation are not measurable and cannot be estimated as of the date of the financial statements.

SUPPLEMENTAL INFORMATION

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
SCHEDULES OF OPERATING EXPENSES
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING EXPENSES		
Advertising and promotion	\$ 70,548	\$ 34,772
Amortization	3,147	3,147
Bad debt expense	-	247
Bank charges	35,675	35,708
Board expenses	3,137	4,327
Cleaning and janitorial	49,001	39,406
Depreciation	186,435	186,893
Driving range balls	-	3,712
Dues and publications	9,142	4,853
Employee benefits	25,829	20,508
Entertainment	5,496	5,417
Equipment rent	15,152	12,071
Event expense	6,136	19,741
Golf cart lease	51,503	51,762
Golf course maintenance	494,629	458,229
Insurance - general liability	44,652	54,442
Insurance - vehicle	-	1,056
Interest expense	39,563	43,361
Lake Elaine expense	12,095	21,152
Newsletter expense	8,749	4,817
Office supplies	14,252	7,410
Other taxes	(387)	5,727
Payroll taxes	46,097	48,253
Pool expense	5,597	9,602
Postage and freight	10,875	8,018
Professional expense	207,720	355,462
Property tax	24,662	26,180
Repair and maintenance - buildings	29,417	37,249
Repair and maintenance - equipment	19,819	19,912
Repair and maintenance - grounds	14,350	14,642
Repair and maintenance - irrigation	-	6,070
Repair and maintenance - golf carts	670	717

(Continued)

See independent accountants' review report.

CONTINENTAL COUNTRY CLUB, INC.
SCHEDULES OF OPERATING EXPENSES (Continued)
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries and wages	529,225	525,457
Small equipment	16,341	7,011
Special projects	12,046	28,352
Subcontractor expense	54,944	83,460
Supplies	19,632	26,361
Telephone	13,070	10,761
Trash removal	(600)	1,366
Travel and mileage	2,369	6,265
Uniforms	3,178	3,515
Utilities	319,944	311,049
Vehicle expense	2,046	2,881
Walnut Canyon Lake expense	81,433	73,455
Workers' compensation	15,780	14,485
	<u>\$ 2,503,369</u>	<u>\$ 2,639,281</u>

See independent accountants' review report.