Fountains Country Club, Inc.

Financial Report
December 31, 2014

McGladrey

Assurance ▪ Tax ▪ Consulting

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors and Members
Fountains Country Club, Inc.
Lake Worth, Florida

Report on the Financial Statements
We have audited the accompanying financial statements of Fountains Country Club, Inc. which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fountains Country Club, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

West Palm Beach, Florida
April 29, 2015

Fountains Country Club, Inc.

Statements of Financial Position
December 31, 2014 and 2013

Assets (Notes 4 and 5)	**2014**	2013
Current Assets		
Cash	**$ 296,506**	$ 458,299
Receivables, less allowance for doubtful accounts		
2014 $132,709; 2013 $5,658	**1,840,977**	1,150,069
Inventories	**47,580**	63,727
Prepaid expenses (Note 10)	**555,560**	219,434
Total current assets	**2,740,623**	1,891,529
Designated Funds (Note 2)	**1,009,614**	1,009,614
Property and Equipment, Net (Notes 3, 4, 5 and 6)	**20,990,091**	22,470,150
Other Assets	**109,798**	117,297
	$ 24,850,126	$ 25,488,590
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt (Note 4)	**$ 836,948**	$ 779,059
Current maturities of capital lease obligations (Note 6)	**313,348**	301,675
Line of credit (Note 5)	**1,197,677**	272,462
Accounts payable, trade and other liabilities	**607,619**	487,811
Capital Mortgage Fund payable, current portion	**3,840**	8,610
Accrued expenses	**434,868**	338,439
Membership dues and fees paid in advance	**1,736,796**	1,952,093
Total current liabilities	**5,131,096**	4,140,149
Capital Mortgage Fund, Less Current Portion	**28,340**	44,730
Long-Term Debt, Less Current Maturities (Note 4)	**9,357,292**	10,194,241
Capital Lease Obligations, Net of Current Maturities (Note 6)	**197,290**	520,880
Interest Rate Swap Agreement (Note 4)	**2,111,385**	2,103,943
Total liabilities	**16,825,403**	17,003,943
Commitments and Contingencies (Note 10)		
Net Assets, Unrestricted	**8,024,723**	8,484,647
	$ 24,850,126	$ 25,488,590

See Notes to Financial Statements.

Fountains Country Club, Inc.

Statements of Activities
Years Ended December 31, 2014 and 2013

	2014	2013
Changes in Unrestricted Net Assets		
Revenues:		
Membership dues	**$ 5,292,711**	$ 5,042,895
Operating assessment (Note 8)	**636,000**	974,400
Initiation and other fees	**165,200**	347,089
Food and beverage sales	**2,159,655**	2,231,564
Service and guest charges	**1,827,378**	1,607,024
Cart rental fees	**921,083**	1,326,161
Golf operations	**335,075**	366,050
Tennis fees	**200,206**	196,357
Lockers	**75,962**	81,327
Fitness center	**306,843**	321,927
Social amenities	**185,566**	66,893
Rental income	**13,632**	8,500
Interest income	**-**	1,508
Other income	**7,506**	12,888
	12,126,817	12,584,583
Expenses:		
Food and beverage	**3,828,731**	3,981,572
Carts	**439,052**	429,315
Golf operations	**334,642**	342,508
Clubhouse	**480,076**	415,538
Golf course maintenance	**2,441,249**	2,440,457
Tennis	**387,968**	356,137
Lockers	**227,164**	230,373
Housemen	**256,681**	263,312
Valet	**244,992**	247,077
Fitness center	**208,927**	238,918
Social amenities	**202,021**	172,802
Rental property	**11,879**	11,792
Administrative and general	**2,157,429**	2,313,464
Real estate and personal property taxes	**261,822**	262,227
Insurance	**421,622**	412,169
	11,904,255	12,117,661
Excess of revenues over expenses before other income (expenses) and membership activity, forward	**222,562**	466,922

(Continued)

Fountains Country Club, Inc.

Statements of Activities (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
Excess of revenues over expenses before other income (expenses) and membership activity, forwarded	**$ 222,562**	$ 466,922
Other Income (Expenses)		
Interest rate swap agreement (Note 4)	**(7,442)**	1,135,162
Interest expense	**(750,390)**	(800,523)
Gain on disposition of property and equipment (Note 3)	**-**	27,000
Depreciation	**(1,668,087)**	(1,693,691)
	(2,425,919)	(1,332,052)
Deficiency of revenues over expenses before membership activity	**(2,203,357)**	(865,130)
Membership Activity		
Capital improvement assessment (Note 8)	**1,466,425**	1,377,623
Line of credit paydown assessment (Note 8)	**168,086**	322,912
Initiation fees	**101,422**	-
Equity membership certificates issued	**7,700**	6,100
Equity membership certificates redeemed	**(200)**	(1,400)
	1,743,433	1,705,235
Increase (decrease) in unrestricted net assets	**(459,924)**	840,105
Net Assets, Unrestricted		
Beginning	**8,484,647**	7,644,542
Ending	**$ 8,024,723**	$ 8,484,647

See Notes to Financial Statements.

Fountains Country Club, Inc.

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Increase (decrease) in unrestricted net assets	**$ (459,924)**	$ 840,105
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Net membership activity	**(1,743,433)**	(1,705,235)
Depreciation	**1,668,087**	1,693,691
Amortization of loan costs included in interest expense	**7,499**	7,499
Gain on disposition of property and equipment	**-**	(27,000)
Interest rate swap agreement	**7,442**	(1,135,162)
Bad debt expense	**107,699**	52,008
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(798,607)**	(8,533)
Inventories	**16,147**	(9,339)
Prepaid expenses	**(336,126)**	(8,138)
Increase (decrease) in:		
Accounts payable, trade and other liabilities	**101,346**	45,132
Accrued expenses	**96,429**	2,058
Membership dues and fees paid in advance	**(215,297)**	(715,826)
Net cash used in operating activities	**(1,548,738)**	(968,740)
Cash Flows From Investing Activities		
Disbursements for property and equipment	**(169,566)**	(199,705)
Decrease in designated funds	**-**	28,298
Net cash used in investing activities	**(169,566)**	(171,407)

(Continued)

Fountains Country Club, Inc.

Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Financing Activities		
Capital improvement assessment	**$ 1,466,425**	$ 1,377,623
Line of credit paydown assessment	**168,086**	322,912
Initiation fees	**101,422**	-
Equity membership certificates issued	**7,700**	6,100
Equity membership certificates redeemed	**(200)**	(1,400)
Proceeds from line of credit	**3,998,934**	2,478,791
Payments on line of credit	**(3,073,719)**	(2,206,329)
Capital Mortgage Fund payout	**(21,160)**	(8,610)
Principal payments on long-term debt	**(779,060)**	(733,878)
Principal payments on capital lease obligations	**(311,917)**	(239,213)
Net cash provided by financing activities	**1,556,511**	995,996
Net decrease in cash	**(161,793)**	(144,151)
Cash		
Beginning	**458,299**	602,450
Ending	**$ 296,506**	$ 458,299
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	**$ 742,891**	$ 793,024
Supplemental Schedule of Noncash Investing and Financing Activities		
Equipment acquired through capital leases	**$ -**	$ 302,002
Property and equipment acquired through accounts payable	**$ 18,462**	$ -
Proceeds on trade-in of property and equipment applied to purchase	**$ -**	$ 45,000

See Notes to Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Fountains Country Club, Inc. (the Club), is a private member-owned Club and is organized as a “corporation not-for-profit” under the laws of the State of Florida. The purpose of the Club is to own and operate a private country club for the pleasure and recreation of its members and other permitted users.

A summary of the Club’s significant accounting policies follows:

Basis of presentation: A not-for-profit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A specific financial statement reporting format has been established for not-for-profit organizations and requires the statement of activities to reflect all changes in net assets. The Club does not have any donor-imposed temporarily or permanently restricted net assets.

Accounting 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue recognition and practices: Membership dues, service charges, cart and bag storage fees are billed annually and are recognized as revenue on a pro rata basis over the period covered by the billing. Food, beverage, guest charges, daily cart rental fees, greens fees, lessons, fitness center charges and landscape services are recorded as revenue at the time of sale or service.

Initiation fees from new members are recorded in the period of acceptance of the member. Effective July 1, 2014, initiation fees are classified as membership activity rather than revenue.

Capital assessments are recorded as membership activity when received. Operating assessments are recognized as revenue in the period in which the related loss is incurred.

Operating income/performance measurement: Operating revenues and expenses generally reflect those revenues and expenses for which management is responsible and for which the Club includes in its annual operating budget; accordingly, the excess of revenues over expenses before other income (expenses) and membership activity represents management’s measure of current operating results for performance measurement purposes.

Cash and cash concentration: The Club maintains its cash in deposit accounts which, at times, may exceed federally-insured limits. The Club has not experienced any losses in such accounts. For purposes of reporting cash flows, the Club does not consider designated funds to be cash.

Receivables and allowance for doubtful accounts: Receivables are carried at the original billing amount, less an estimate for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Receivables are typically due within 30 days or as scheduled. If payment is not received by the last day of the month following the statement date, a late penalty is charged. Late fees are recognized as revenue when charged. If the delinquent account is not paid in full by the end of the third month, the Club has the right to suspend and/or terminate the member. It is the Club’s policy to vigorously proceed with all collection procedures at its disposal. An allowance for doubtful accounts is recorded when collection of identified accounts receivable is uncertain.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories: Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property and equipment: Property and equipment is stated at cost. Depreciation is computed on the straight-line method, based on the following estimated useful lives of the various classes of assets:

	Years
Buildings and improvements	5 – 40
Tennis courts and other land improvements	5 – 20
Furniture, fixtures and equipment	3 – 20

Amortization of assets held under capital lease is computed over the shorter of the estimated useful life or lease term and is included in depreciation expense with other owned assets.

Income taxes: The Internal Revenue Service has granted the Club an exemption from federal income taxes under Section 501(c)(7). The Tax Reform Act of 1969 imposed a corporate income tax on the "unrelated business taxable income" of an otherwise tax-exempt club. Provision for applicable state and federal income taxes is made in accordance with these statutes.

The Club has evaluated its tax positions and concluded that the Club has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting guidance for uncertainty in income taxes within the Income Taxes Topic of the FASB Accounting Standards Codification. With few exceptions, the Club is no longer subject to income tax examinations by the U.S. federal or state tax authorities for years prior to December 31, 2011.

Derivatives: The Club uses derivative instruments primarily to manage its interest rate risk. An interest rate swap agreement is utilized to manage interest rate risk associated with the Club's floating rate long-term borrowings. These derivatives are measured at fair value and are recognized as either assets or liabilities on the statements of financial position. The Club recognizes additional financing income or expense in the statement of activities related to the net change in the carrying amount of the swap agreement for the year.

Provided that the Club does not default on its financial arrangements, continues its schedule of debt service payments through the loan maturity date and does not settle the interest rate swap agreement, interest expense on the aforementioned debt, net of the cash flows required under the periodic settlement provisions of the swap agreement, will essentially remain fixed and the swap agreement will not result in any other cash flows. Assuming settlement does not occur, the fair value of the swap agreement will adjust to zero upon reaching its expiration date.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Fair value of financial instruments: The carrying amount of cash, receivables and accounts payable approximates fair value due to the short-term maturities of these instruments. The carrying value of the variable rate long-term debt approximates fair value because the interest rates used with these instruments fluctuate with the market rates or are at terms currently available to the Club. The fair value of the interest rate swap agreement is the estimated amount the Club would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of the Club for liabilities.

Fair value measurements: Generally accepted accounting principles establish a framework for measuring fair value, and expand disclosures about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Club performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis.

As of December 31, 2014, the fair value measurement for the interest rate swap agreement (see Note 4) is considered to be Level 2.

Subsequent events: Management has evaluated subsequent events through April 29, 2015, the date on which the financial statements were available to be issued.

Note 2. Designated Funds

The Club has designated funds for future capital and debt service needs of the Club. Total designated funds as of December 31, 2014 and 2013, amounted to $1,009,614, respectively.

Note 3. Property and Equipment

The major classifications of property and equipment as of December 31, 2014 and 2013 are:

	2014	2013
Land and golf course improvements	**$ 6,494,298**	$ 6,494,298
Buildings and improvements	**24,397,365**	24,397,365
Tennis courts	**373,235**	373,235
Furniture, fixtures and equipment	**6,966,056**	6,778,028
	38,230,954	38,042,926
Less accumulated depreciation	**17,240,863**	15,572,776
	$ 20,990,091	$ 22,470,150

During 2013, the Club wrote off property and equipment with a cost of $189,417 and accumulated depreciation of $171,417, and received trade-in proceeds of $45,000, recognizing a gain on disposition of property and equipment of $27,000 in the statement of activities.

Note 4. Long-Term Debt

Long-term debt as of December 31, 2014 and 2013, consists of the following:

	2014	2013
Note payable, bank, secured by a mortgage, modified September 11, 2012, bearing interest at LIBOR plus 1.01% (1.16% as of December 31, 2014). Monthly installments of principal and interest are due through January 6, 2025 (see (a) below).	$ 10,082,369	$ 10,754,719
Golf course maintenance equipment loan bearing interest at 4.65% due in annual installments through 2015 collateralized by golf course equipment.	111,871	218,581
	10,194,240	10,973,300
Less current maturities	836,948	779,059
Long-term debt, less current maturities	$ 9,357,292	$ 10,194,241

(a) In July 2007, the Club entered into a construction loan agreement with a bank to be used to finance the renovation of the North and South Complexes. The construction loan converted into a term loan effective January 4, 2010. In September 2012, the Club renewed the promissory note. Principal and interest payments are payable based upon the payment schedule more fully described in the agreements and the interest rate adjusts to a rate equal to the one-month London InterBank Offered Rate (LIBOR) index rate plus 1.01% (1.16% as of December 31, 2014). The loan agreement matures on January 6, 2025 and is secured by a mortgage. This loan is subject to a covenant requiring the maintenance of a debt service coverage ratio as more fully described in the agreement.

Note 4. Long-Term Debt (Continued)

In conjunction with the note payable, the Club entered into an interest rate swap agreement with the bank having an original notional principal amount of $13,000,000 that reduces as debt principal payments are made, with an effective date of January 4, 2010 and a maturity date of January 6, 2025. Under the swap agreement, the Club pays interest at a fixed rate of 6.65%, and receives interest at a variable rate equal to 1-month LIBOR plus 1.01% (1.16% as of December 31, 2014) based on a notional amount. Each reset date determines the variable portion of the interest rate swap for the following monthly period. The fair value of the swap agreement was a liability of $2,111,385 and $2,103,943 as of December 31, 2014 and 2013, respectively, as estimated by the financial institution using a proprietary model. The Club recorded financing expense and revenue of ($7,442) and $1,135,162, respectively, in the statements of activities for the years ended December 31, 2014 and 2013, related to the change in the fair value of the swap agreement. The notional principal amount of the interest rate swap agreement was $10,082,369 as of December 31, 2014.

Minimum future principal payments required on long-term debt as of December 31, 2014, are as follows:

Year Ending December 31,	Term Loan	Equipment Loan	Total
2015	$ 725,077	$ 111,871	$ 836,948
2016	773,280	-	773,280
2017	827,080	-	827,080
2018	884,536	-	884,536
2019	947,052	-	947,052
Thereafter	5,925,344	-	5,925,344
	$ 10,082,369	$ 111,871	$ 10,194,240

These principal payments exclude payments on the line of credit (see Note 5).

Note 5. Line of Credit

The Club has a line of credit which provides for borrowings up to $2,000,000 under the terms of a revolving credit agreement. During 2012, the agreement was modified and requires monthly interest payments at the higher of 1-month LIBOR plus 2.5% or the floor rate of 4% per annum (4.0% as of December 31, 2014). The line of credit was extended and matures in June 2017. The line of credit is secured by a mortgage. The outstanding balance as of December 31, 2014 and 2013 was $1,197,677 and $272,462, respectively.

Note 6. Capital Lease Obligations

The Club has entered into capital lease agreements for golf course maintenance equipment and golf carts which are classified as capital leases. As of December 31, 2014, capitalized equipment and accumulated depreciation amount to $1,189,078 and $751,148, respectively.

Annual minimum lease payments as of December 31, 2014, are due in future years as follows:

Year Ending December 31,	Amount
2015	$ 335,723
2016	141,013
2017	68,686
Total minimum lease payments	545,422
Less amount representing interest at 3.9% to 5.0%	34,784
Present value of minimum lease payments	510,638
Less current portion	313,348
Long-term portion	$ 197,290

Note 7. Related Party Agreements

Effective March 1, 2014, the Club and the Fountains Condominium Operations, Inc. (FCO) executed the Fountains Community Management and Facilities Agreement (the Agreement). The Agreement replaces the Membership and Use Agreements that expired December 31, 2012 and provides for the right to use and operation and management of recreation facilities and structures including the Office Building, Fountains Hall, Craft Hall, Maintenance Barn, as well as, certain common areas and related community services. The Club's and FCO's rights and responsibilities are more fully described in the Agreement. Among other terms, FCO agreed to pay the Club $4,167 per month ($50,000 per year), beginning June 1, 2014 until expiration of the contract, for the right to use the recreation facilities and structures. The Club and FCO agreed that this monthly fee will be used in a separate account and used only for projects and programs for the benefit of the Fountains Community at large. In addition, the Club is responsible for payment of 13% of the utilities for the space that they occupy in the Office Building. The initial term of the Agreement is seven years, expiring December 31, 2021, with the option for two additional seven year terms, unless terminated by notice of either of the parties.

Note 8. Assessments

Capital assessment: In February 2007, the equity members of the Club approved a $110 monthly capital improvement assessment for each golf and tennis/social equity member and $27.50 for each charter social member commencing March 2007 to rebuild the South Complex and renovate the North Complex for a total cost of approximately $15,000,000.

In 2013, the Board raised the capital improvement assessment to $135 per member and approved a $34 line of credit pay down assessment per member. In 2014, the capital improvement assessment was increased to $151 per month per member and the line of credit pay down assessment was decreased to $18 per month per month. Total assessments of $1,634,511 and $1,700,535 were recorded for the years ended December 31, 2014 and 2013, respectively, in connection with these assessments.

Note 8. Assessments (Continued)

On December 29, 2014, the membership approved a special capital assessment of $1,800 per equity member, to be made in twelve monthly installments of $150 beginning January 2015, to fund $1.25 million of the $1.5 million capital project for replacement of the main clubhouse roof, west golf course renovation, kitchen improvements and patio enhancements.

Operating assessment: For fiscal 2014, the Board approved an operating assessment to fund the 2014 operating deficit. The Club billed an operating assessment of $636,000 which is included in the statement of activities for the year ended December 31, 2014. The assessment was $800 per equity member and was billed in January 2015 and was due by March 31, 2015.

For fiscal 2013, the Board approved an operating assessment to fund the 2013 operating deficit. The Club billed an operating assessment of $974,400 which is included in the statement of activities for the year ended December 31, 2013. The assessment was $1,200 per equity member and was billed in June 2013, payable over six months.

Note 9. Employee Benefit Programs

401(k) plan: The Club sponsors a 401(k) plan for all full-time employees. Participants in the plan must be at least age 21 and have completed six months of employment. The Club has the option of making contributions to the plan. For the years ended December 31, 2014 and 2013, the Club did not contribute to the plan.

Note 10. Commitments and Contingencies

Insurance: Where possible, the Club attempts to mitigate the risk of hurricane damages through insurance. The Club's insurance policy was renewed through December 2015; however, due to deductibles, losses from future catastrophic events may require a special assessment to the members or funding from excess reserves, if such exists.

Litigation: The Club is currently a defendant in a class action law suit brought by seven (7) condominium associations, on behalf of all of their members (the Plaintiffs). This action primarily concerns the Plaintiffs' rights to repeal mandatory membership in their respective courts (each association is more commonly known as a court), without the permission of the Club. The Club takes the position that the Club is a third-party beneficiary to the amendments which enacted mandatory membership and thus, is entitled to rely on the continuance of mandatory membership in the Fountains Community, which cannot be revoked without the Club's express consent. The Parties previously held a mediation where a settlement agreement was reached; however, the agreement was not passed by the members of the Plaintiff courts (a vote on this agreement was required under the applicable statues). As such, the Parties are now proceeding with litigation. This matter is currently on a trial docket in late August and early September of this year. The Parties continue to explore the potential for settlement and might re-open negotiations in the future should the opportunity arise. Club management is aggressively defending this claim. It is too early to predict the outcome of these matters, but management believes that the outcome of such litigation will not have a material adverse effect on the Club's financial position or changes in net assets.

Note 10. Commitments and Contingencies (Continued)

In addition, the Club is currently a party to litigation over certain residents' obligation to comply with mandatory community membership. These actions have been filed on behalf of the Club against recent unit purchasers in the Fountains Community who failed to obtain the accompanying requisite membership in the Club pursuant to mandatory membership. In each Complaint the Club takes the position that mandatory membership is still in place and that membership in the Club is a condition of ownership of a unit for these individuals in each of their respective courts.

The Club has also filed suit against various members of the Club who are delinquent on dues and assessments to the Club. All of these cases are in their early stages.

Management agreement: On November 20, 2014, the Club entered into an agreement to transfer management of its daily operations to Kemper Sports Management, Inc. (the Management Company) under a management agreement which is effective December 1, 2014 and terminates December 1, 2017. The Club shall pay the Management Company a fee of $18,000 per month. The fixed fee shall be increased each anniversary date by 3.0%. In addition to the fixed management fee, each fiscal year the Management Company is eligible to earn certain incentives. The incentive management fee is subject to the occurrence of certain performance events as more fully described in the management agreement. During the year ended December 31, 2014, the Club incurred $18,000 of management fees. Included in prepaid expenses as of December 31, 2014 was $275,000 advanced to the Management Company for payroll related expenses and $33,375 of consulting fees credited back to the Club to be amortized over the management contract period.

Construction contract: In March, 2015, the Club has entered into a contract for approximately $812,000 in relation to the replacement of the main clubhouse and accounting office roofs (see Note 8).

Note 11. Environmental Matter

The Florida Department of Environmental Protection (the FDEP) had identified well contamination with arsenic on the Club's property in 1993. A subsequent FDEP inspection in 2008 identified an additional area of potential soil and ground water contamination. The Club engaged environmental experts to develop a remedial action plan. The FDEP approved the plan in which the Club monitored ground water for three years, reporting any findings. As a result of the environmental experts' groundwater monitoring report submitted to the FDEP on June 26, 2013, the FDEP agreed that the contaminated site would qualify for "No Further Action with Conditions in accordance with Risk Management Level II." On January 10, 2014, the Club's environmental attorney submitted on behalf of the Club, an Institutional Control Packet (the IC Packet) for the North Golf Course Maintenance Area in accordance with FDEP guidance. This process was successfully completed in September 2014 with the receipt of the final Site Rehabilitation Completion Order with Conditions from the FDEP.