

TIMOTHY, DeVOLT and COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
4099 McEWEN ROAD, SUITE 135
FARMERS BRANCH, TEXAS 75244
OFFICE: (972) 980-4315
FAX: (972) 702-0174
www.timothydevolt.com

To the Board of Directors
White Bluff Property Owners Association

August 9, 2019

In planning and performing our audit of the financial statements of the White Bluff Property Owners Association as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered White Bluff Property Owners Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management (the board of directors) or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A fundamental concept in a good system of internal control is the separation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. If the separation of duties is inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and not be detected. Although the size of the entity's accounting staff might make complete adherence to this concept more difficult, we believe that adequate steps have been taken to segregate incompatible duties.

Management (the board of directors) is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

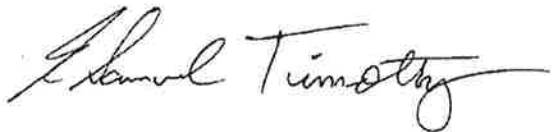
At times, management (the board of directors) may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management (the board of directors) is as responsible for outsourced functions performed by a service provider as it would be for such functions performed internally.

Specifically, management (the board of directors) is responsible for management decisions and functions: for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management (the board of directors) requested us to prepare a draft of your financial statements, including the related notes to the financial statements. Management (the board of directors) reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management (the board of directors) did not perform a detailed review of our work papers underlying the financial statements.

The existence of significant deficiencies or material weaknesses may already be known to management (the board of directors) and may represent a conscious decision by management (the board of directors) or those charged with governance to accept that degree of risk because of cost or other considerations. Management (the board of directors) is responsible for making decisions concerning costs and the related benefits. We are responsible for communicating significant deficiencies and material weaknesses in accordance with professional standards, regardless of management (the board of directors)'s decisions.

This communication is intended solely for the information and use of the association's board of directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Samuel Timothy". The signature is written in dark ink and is positioned above the typed name of the firm.

Timothy, DeVolt and Company, P.C.
Dallas, Texas

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.

Fixed Asset Analysis

12/31/2018

Golf course total for new & old is \$1,800,000.00. It has been split 50/50 to be recorded as land and leasehold improvements.

| | |
|--------------|-----------|
| Date: | 7/30/2019 |
| Prepared By: | PSP |
| Reviewed By: | |

| G/L # | Description | Acquisition Date | Basis | Useful Life | Depr. Method | Beginning Balance | Additions | Retirements | Ending Balance |
|-------|----------------------------------|------------------|--------------|-------------|--------------|-------------------|--------------|-------------|----------------|
| 17500 | Land | | 108,338.64 | | | 108,338.64 | - | - | 108,338.64 |
| | Land | | 900,000.00 | | | 900,000.00 | - | - | 900,000.00 |
| | TOTALS | | 1,008,338.64 | | | 1,008,338.64 | - | - | 1,008,338.64 |
| | Furniture & Equipment | | | | | | | | |
| | Administration Building | 9/28/2018 | 144,000.00 | 39 | s/l | - | 144,000.00 | - | 144,000.00 |
| | Maintenance Facility | 9/28/2018 | 240,000.00 | 39 | s/l | - | 240,000.00 | - | 240,000.00 |
| | Conference Center | 9/28/2018 | 360,000.00 | 39 | s/l | - | 360,000.00 | - | 360,000.00 |
| | Tennis Courts | 9/28/2018 | 48,000.00 | 39 | s/l | - | 48,000.00 | - | 48,000.00 |
| | Spa | 9/28/2018 | 240,000.00 | 39 | s/l | - | 240,000.00 | - | 240,000.00 |
| | Lighthouse | 9/28/2018 | 480,000.00 | 39 | s/l | - | 480,000.00 | - | 480,000.00 |
| | Hotel | 9/28/2018 | 408,000.00 | 39 | s/l | - | 408,000.00 | - | 408,000.00 |
| | Rustic Cabins | 9/28/2018 | 120,000.00 | 39 | s/l | - | 120,000.00 | - | 120,000.00 |
| | Bluffpoint Condos | 9/28/2018 | 240,000.00 | 39 | s/l | - | 240,000.00 | - | 240,000.00 |
| | Trailwood Laundry | 9/28/2018 | 48,000.00 | 39 | s/l | - | 48,000.00 | - | 48,000.00 |
| | Furniture & Fixtures | | 35,486.56 | 5 | s/l | 35,486.56 | - | - | 35,486.56 |
| | Vehicles | | 653,188.92 | 7 | s/l | 653,188.92 | - | - | 653,188.92 |
| | Capital Leased Equipment | | 337,923.20 | 5 | s/l | 337,923.20 | - | - | 337,923.20 |
| | RV / Boat Storage | 9/28/2018 | 192,000.00 | 39 | s/l | - | 192,000.00 | - | 192,000.00 |
| | Marina Leasehold | 9/28/2018 | 360,000.00 | 39 | s/l | - | 360,000.00 | - | 360,000.00 |
| | North & South Lake | 9/28/2018 | 120,000.00 | 39 | s/l | - | 120,000.00 | - | 120,000.00 |
| | Golf Course - Leasehold Improv | 9/28/2018 | 900,000.00 | 15 | s/l | - | 900,000.00 | - | 900,000.00 |
| | * Tables/Bases/Chairs | | 10,974.04 | 5 | s/l | - | 10,974.04 | - | 10,974.04 |
| | Cameras | 1/26/2018 | 2,728.98 | 5 | s/l | - | 2,728.98 | - | 2,728.98 |
| | Computer | 7/28/2018 | 2,869.74 | 5 | s/l | - | 2,869.74 | - | 2,869.74 |
| | Server Rack | 11/16/2018 | 3,637.18 | 5 | s/l | - | 3,637.18 | - | 3,637.18 |
| | Motorboat | 11/17/2018 | 12,476.31 | 5 | s/l | - | 12,476.31 | - | 12,476.31 |
| | Kitchen Equipment | 12/12/2018 | 78,928.24 | 5 | s/l | - | 78,928.24 | - | 78,928.24 |
| | TOTALS | | 5,038,213.17 | | | 1,026,598.68 | 4,011,614.49 | - | 5,038,213.17 |

* Tables/Bases/Chairs to begin depreciating upon delivery and final pmt in 2019. Recorded the 50% deposit as fixed asset.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.

Fixed Asset Analysis

12/31/2018

Golf course total for new & old is \$1,800,000.00. It has been split 50/50 to be recorded as land and

| | |
|--------------|-----------|
| Date: | 7/30/2019 |
| Prepared By: | PSP |
| Reviewed By: | |

| 17700 | Accumulated Depreciation | Beginning Balance | Debit | Credit | Ending Balance |
|-------|--------------------------------|-------------------|-------|-----------|----------------|
| | Administration Building | 144,000.00 | - | 950.90 | 950.90 |
| | Maintenance Facility | 240,000.00 | - | 1,584.83 | 1,584.83 |
| | Conference Center | 360,000.00 | - | 2,377.24 | 2,377.24 |
| | Tennis Courts | 48,000.00 | - | 316.97 | 316.97 |
| | Spa | 240,000.00 | - | 1,584.83 | 1,584.83 |
| | Lighthouse | 480,000.00 | - | 3,169.65 | 3,169.65 |
| | Hotel | 408,000.00 | - | 2,694.20 | 2,694.20 |
| | Rustic Cabins | 120,000.00 | - | 792.41 | 792.41 |
| | Bluffpoint Condos | 240,000.00 | - | 1,584.83 | 1,584.83 |
| | Trailwood Laundry | 48,000.00 | - | 316.97 | 316.97 |
| | Furniture & Fixtures | 35,486.56 | - | - | 35,486.56 |
| | Vehicles | 653,188.92 | - | - | 653,188.92 |
| | Capital Leased Equipment | 337,923.20 | - | - | 337,923.20 |
| | RV / Boat Storage | 192,000.00 | - | 1,267.86 | 1,267.86 |
| | Marina Leasehold | 360,000.00 | - | 2,377.24 | 2,377.24 |
| | North & South Lake | 120,000.00 | - | 792.41 | 792.41 |
| | Golf Course - Leasehold Improv | 900,000.00 | - | 15,452.05 | 15,452.05 |
| | Tables/Bases/Chairs | 10,974.04 | - | - | - |
| | Cameras | 2,728.98 | - | 506.92 | 506.92 |
| | Computer | 2,869.74 | - | 245.30 | 245.30 |
| | Server Rack | 3,637.18 | - | 89.68 | 89.68 |
| | Motorboat | 12,476.31 | - | 300.80 | 300.80 |
| | Kitchen Equipment | 78,928.24 | - | 821.72 | 821.72 |
| | TOTALS | 5,038,213.17 | - | 37,226.81 | 1,063,825.49 |

NET VALUE - FIXED ASSETS

4,982,726.32

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
 Adjusting Entries - Detailed
 12/31/2018

| | |
|--------------|-----------|
| Date: | 7/30/2019 |
| Prepared By: | PSP |
| Reviewed By: | ST |

Page 1

| AJE # | G/L Acct. | Account Name | Debit | Credit |
|---------------------------------|-----------|---|--------------|--------------|
| 1 | 30700 | Retained Earnings | 1,145,359.82 | |
| 1 | 30400 | Prior Year Adjustment To adjust beginning equity | | 1,145,359.82 |
| 2 | 41010 | Reserves Income | 1,132,129.24 | |
| 2 | 90400 | Restricted Reserve Expense For presentation purposes | | 1,132,129.24 |
| 3 | 14700 | Prepaid Insurance | 3,494.54 | |
| 3 | 20650 | Accrued Expenses Payable | | 8,206.24 |
| 3 | 52040 | Insurance - Property/Contents To adjust prepaid expense as of 12/31/18 | 4,711.70 | |
| 4 | 70190 | Security System / Gate Repairs | | 3,114.30 |
| 4 | 14500 | Prepaid Expenses To reclass prepaid expense | 3,114.30 | |
| 5 | 70190 | Security System / Gate Repairs | | 2,728.98 |
| 5 | 70200 | IT Support | | 6,506.92 |
| 5 | 70000 | Amenities Expense | | 91,404.55 |
| 5 | 17400 | Tools & Equipment | 88,164.14 | |
| 5 | 17670 | Vehicles / RV / Boat To reclass fixed assets | 12,476.31 | |
| 6 | 60000 | Electricity | | 4,719.75 |
| 6 | 60060 | Water / Sewer | | 2,250.54 |
| 6 | 60050 | Trash Removal | | 986.54 |
| 6 | 70370 | Vehicle/Equip./Furn. | | 3,917.64 |
| 6 | 70080 | Common Area Maintenance | | 11,572.88 |
| 6 | 50250 | Licenses / Permits / Inspections | | 1,080.00 |
| 6 | 50240 | Legal & Professional | | 35,214.68 |
| 6 | 81050 | Taxes - Real Property | | 19,008.85 |
| 6 | 53070 | Compensation - On - Site Mgmt. Wages | | 16,002.63 |
| 6 | 50300 | Supplies - Administrative | | 7,104.10 |
| 6 | 50000 | Accounting / Audit | 7,140.00 | |
| 6 | 30400 | Prior Year Adjustment To reclass 2017 expenses and accrual in error to PY equity | 94,717.61 | |
| 7 | 81050 | Taxes - Real Property | 37,129.75 | |
| 7 | 20900 | Property Taxes Payable To adjust property tax liability as of 12/31/18 | | 37,129.75 |
| 8 | 70000 | Amenities Expense | | 10,974.04 |
| 8 | 17200 | Fixtures & Furnishings To reclass fixed assets | 10,974.04 | |
| 9 | 54010 | Interest Expense | | 14,791.67 |
| 9 | 70000 | Amenities Expense To adjust interest expense as of 12/31/18 | 14,791.67 | |
| Page Totals / Difference | | | 2,554,203.12 | 2,554,203.12 |

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
 Adjusting Entries - Detailed
 12/31/2018

| | |
|--------------|-----------|
| Date: | 7/30/2019 |
| Prepared By: | PSP |
| Reviewed By: | ST |

Page 2

| AJE # | G/L Acct. | Account Name | Debit | Credit |
|-------|-----------|--|--------------|--------------|
| 10 | 54000 | Depreciation Expense | | 307,200.00 |
| 10 | 17700 | Accumulated Depreciation | 307,200.00 | |
| | | To zero out depreciation expense posted by mgmt co. See entry 12 for correct deprecation booking. | | |
| 11 | 17700 | Accumulated Depreciation | | 1,023,604.68 |
| 11 | 30400 | Prior Year Adjustment | 1,023,604.68 | |
| | | To adjust accumulated depreciation to have correct beginning balance for 2018 | | |
| 12 | 54000 | Depreciation Expense | 37,226.81 | |
| 12 | 17700 | Accumulated Depreciation | | 37,226.81 |
| | | To record depreciation expense as of 12/31/18 | | |
| 13 | 60000 | Electricity | 1,566.88 | |
| 13 | 60060 | Water / Sewer | | 1,121.73 |
| 13 | 50240 | Legal & Professional | 17,859.16 | |
| 13 | 70363 | Fuel Expenses | 2,198.85 | |
| 13 | 70370 | Vehicle/Equip./Furn. | 1,014.13 | |
| 13 | 70000 | Amenities Expense | 31,120.00 | |
| 13 | 70370 | Vehicle/Equip./Furn. | 3,708.11 | |
| 13 | 70170 | Golf Course Maintenance | 4,468.81 | |
| 13 | 70080 | Common Area Maintenance | 3,064.30 | |
| 13 | 70190 | Security System / Gate Repairs | 8,318.85 | |
| 13 | 53040 | Compensation - Facilities Mgmt. | 46,416.11 | |
| 13 | 20650 | Accrued Expenses Payable | | 118,613.47 |
| | | To record accrued expenses payable as of 12/31/18 | | |
| 14 | 20000 | Accounts Payable | | 814.86 |
| 14 | 14500 | Prepaid Expenses | 814.86 | |
| | | To adjust debit balance in A/P by reclassing Sherwin Williams credit for paint to prepaid expense as of 12/31/18 | | |

Page Totals / Difference

1,488,581.55 1,488,581.55

WHITE BLUFF PROPERTY OWNERS ASSOCIATION

TABLE OF CONTENTS

DECEMBER 31, 2018

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 - 2 |
| BALANCE SHEET | 3 |
| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE | 4 |
| STATEMENT OF CASH FLOWS | 5 |
| FOOTNOTES TO THE FINANCIAL STATEMENTS | 6 - 10 |

TIMOTHY, DeVOLT AND COMPANY, P.C.

4099 McEWEN ROAD, SUITE 135
FARMERS BRANCH, TEXAS 75244
OFFICE (972) 980-4315
FAX (972) 702-0174
www.timothydevolt.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
White Bluff Property Owners Association
Whitney, Texas

We have audited the accompanying financial statements of White Bluff Property Owners Association which comprise the Balance Sheet as of December 31, 2018, and the related Statements of Revenues, Expenses and Changes in Fund Balance, and Cash Flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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.

Basis for Qualified Opinion

The Association could not provide supporting documentation for \$ 34,124.31 of expenses posted in summary by the former management company. The Association's records did not permit the application of other auditing procedures for these items.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financials statements present fairly, in all material respects, the financial position of White Bluff Property Owners' Association, Inc. as of December 31, 2018, and the results of its operations, and its case flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

As discussed in Footnote 12, the Association's Management (The Board of Directors) has not conducted a reserve study on future major repairs and replacements, which 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Very truly yours,

Timothy, DeVolt and Company, P.C.

Timothy, DeVolt and Company, P.C.
Certified Public Accountants
August 9, 2019

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2018

| ASSETS | | | |
|---|---------------------|---------------------|----------------------|
| | OPERATING FUND | REPLACEMENT FUND | TOTAL |
| CURRENT ASSETS | | | |
| Cash, including interest-bearing deposits | \$ 368,042 | \$ 1,144,196 | \$ 1,512,238 |
| Certificates of deposit | | 1,756,169 | 1,756,169 |
| Assessments receivable, less allowance for doubtful accounts of \$ 2,625,170 | 2,390,538 | | 2,390,538 |
| Accounts receivable - other | 1,561 | | 1,561 |
| Prepaid insurance | 41,022 | | 41,022 |
| Prepaid expense - other | 3,930 | | 3,930 |
| TOTAL CURRENT ASSETS | <u>2,805,093</u> | <u>2,900,365</u> | <u>5,705,458</u> |
| PROPERTY AND EQUIPMENT, AT COST | | | |
| Buildings | 2,280,000 | | 2,280,000 |
| Vehicles / RV / Boats | 857,665 | | 857,665 |
| Furniture & fixtures | 46,461 | | 46,461 |
| Land | 1,908,339 | | 1,908,339 |
| Marina leasehold | 360,000 | | 360,000 |
| North / south lake | 120,000 | | 120,000 |
| Tennis courts | 48,000 | | 48,000 |
| Tools & equipment | 426,087 | | 426,087 |
| Less: accumulated depreciation | (1,063,825) | | (1,063,825) |
| PROPERTY AND EQUIPMENT, NET | <u>4,982,727</u> | <u>-</u> | <u>4,982,727</u> |
| OTHER ASSETS | | | |
| Utility deposits | 7,635 | | 7,635 |
| TOTAL OTHER ASSETS | <u>7,635</u> | <u>-</u> | <u>7,635</u> |
| TOTAL ASSETS | <u>\$ 7,795,455</u> | <u>\$ 2,900,365</u> | <u>\$ 10,695,820</u> |

LIABILITIES AND FUND BALANCES

| | | | |
|--|---------------------|---------------------|----------------------|
| CURRENT LIABILITIES | | | |
| Accounts payable | \$ 266,729 | \$ | \$ 266,729 |
| Assessments received in advance | 669,602 | | 669,602 |
| Property taxes payable | 203,127 | | 203,127 |
| TOTAL CURRENT LIABILITIES | <u>1,139,458</u> | <u>-</u> | <u>1,139,458</u> |
| OTHER LIABILITIES | | | |
| Note payable (less current portion) | 3,550,000 | | 3,550,000 |
| TOTAL OTHER LIABILITIES | <u>3,550,000</u> | <u>-</u> | <u>3,550,000</u> |
| TOTAL LIABILITIES | <u>4,689,458</u> | <u>-</u> | <u>4,689,458</u> |
| FUND BALANCES / (DEFICITS) | <u>3,105,997</u> | <u>2,900,365</u> | <u>6,006,362</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 7,795,455</u> | <u>\$ 2,900,365</u> | <u>\$ 10,695,820</u> |

See the accompanying Independent Auditors' Report
and the Footnotes to the Financial Statements.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018

| REVENUES | OPERATING FUND | REPLACEMENT FUND | TOTAL |
|--|---------------------|---------------------|---------------------|
| Regular assessments | \$ 3,983,461 | \$ 1,132,130 | \$ 5,115,591 |
| Late/collection charges | 429,315 | | 429,315 |
| Home occupancy fee | 172,650 | | 172,650 |
| Marina lease income | 68,616 | | 68,616 |
| Onsite income - golf course, cabin, marina, toll tags | 48,046 | | 48,046 |
| Building permit income | 19,741 | | 19,741 |
| Storage | 10,348 | | 10,348 |
| Highland POA | 9,002 | | 9,002 |
| Rental / vending income | 6,845 | | 6,845 |
| Miscellaneous income | 5,425 | | 5,425 |
| Pro shop sales | 3,049 | | 3,049 |
| Interest income | 712 | 48,458 | 49,170 |
| TOTAL REVENUES | <u>4,757,210</u> | <u>1,180,588</u> | <u>5,937,798</u> |
| | | | |
| OPERATING EXPENSES | | | |
| Compensation - wages & taxes | 1,313,802 | | 1,313,802 |
| Golf course maintenance | 762,283 | | 762,283 |
| Amenities expense | 469,879 | | 469,879 |
| Legal & professional fees | 294,870 | | 294,870 |
| Utilities expense | 289,424 | | 289,424 |
| Office supplies & admin. costs | 274,353 | | 274,353 |
| Repairs - other | 198,397 | | 198,397 |
| Common area maintenance | 118,881 | | 118,881 |
| Repairs - vehicle / equip. | 110,963 | | 110,963 |
| Repairs - parking / pavement | 79,267 | | 79,267 |
| Insurance expense | 56,312 | | 56,312 |
| Taxes - real property | 53,981 | | 53,981 |
| Interest expense | 44,375 | | 44,375 |
| Management fees | 42,000 | | 42,000 |
| Depreciation expense | 37,227 | | 37,227 |
| Trash removal | 19,983 | | 19,983 |
| Pool maintenance & repairs | 19,056 | | 19,056 |
| Cable / telephone expense | 14,205 | | 14,205 |
| Social events | 3,710 | | 3,710 |
| Landscaping & lawn maintenance | 2,712 | | 2,712 |
| TOTAL OPERATING EXPENSES | <u>4,205,680</u> | <u>-</u> | <u>4,205,680</u> |
| | | | |
| EXCESS REVENUES / (EXPENSES) | <u>\$ 551,530</u> | <u>\$ 1,180,588</u> | <u>\$ 1,732,118</u> |
| | | | |
| BEGINNING FUND BALANCE / (DEFICIT) | 1,945,290 | 2,301,916 | 4,247,206 |
| PRIOR PERIOD ADJUSTMENTS | 27,038 | - | 27,038 |
| INTER-FUND TRANSFERS | 582,139 | (582,139) | - |
| ENDING FUND BALANCE / (DEFICIT) | <u>\$ 3,105,997</u> | <u>\$ 2,900,365</u> | <u>\$ 6,006,362</u> |

See the accompanying Independent Auditors' Report
and the Footnotes to the Financial Statements.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

| | OPERATING FUND | REPLACEMENT FUND | TOTAL |
|---|--------------------|---------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | | |
| Excess revenues/ (expenses) | \$ 551,530 | \$ 1,180,588 | \$ 1,732,118 |
| Add: Depreciation | 37,227 | - | 37,227 |
| Decrease / (Increase) in: | | | |
| Accounts receivable | (1,379,616) | - | (1,379,616) |
| Accounts receivable - other | 1,413,135 | - | 1,413,135 |
| Prepaid expenses | (22,042) | - | (22,042) |
| Deposits | (200) | - | (200) |
| Increase / (Decrease) in: | | | |
| Accounts payable | (154,704) | - | (154,704) |
| Prepaid assessments | 198,923 | - | 198,923 |
| Miscellaneous payable | (87,300) | - | (87,300) |
| Other taxes payable | 203,127 | - | 203,127 |
| NET CASH PROVIDED/ (USED) BY OPERATIONS | <u>760,079</u> | <u>1,180,588</u> | <u>1,940,667</u> |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | |
| Investment in certificates of deposit | - | 545,747 | 545,747 |
| Retirement / (Purchase) of property and equipment | (4,911,615) | - | (4,911,615) |
| NET CASH PROVIDED/ (USED) BY INVESTING | <u>(4,911,615)</u> | <u>545,747</u> | <u>(4,365,867)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES: | | | |
| Increase / (Decrease) in: | | | |
| Notes payable | 3,522,194 | - | 3,522,194 |
| Inter-fund transfers | 582,139 | (582,139) | - |
| NET CASH PROVIDED/ (USED) BY FINANCING | <u>4,104,333</u> | <u>(582,139)</u> | <u>3,522,194</u> |
| NET INCREASE/ (DECREASE) IN CASH | <u>(47,203)</u> | <u>1,144,196</u> | <u>1,096,994</u> |
| CASH BALANCE, DECEMBER 31, 2017 | <u>415,245</u> | <u>-</u> | <u>415,245</u> |
| CASH BALANCE, DECEMBER 31, 2018 | <u>\$ 368,042</u> | <u>\$ 1,144,196</u> | <u>\$ 1,512,238</u> |
| SUPPLEMENTAL DISCLOSURE: | | | |
| Cash paid during the year for: | | | |
| Federal Income Tax | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Interest Expense | <u>\$ 59,167</u> | <u>\$ -</u> | <u>\$ 59,167</u> |

See the accompanying Independent Auditors' Report
and the Footnotes to the Financial Statements.

WHITE BLUFF PROPERTY OWNERS ASSOCIATION
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

FOOTNOTE 1: White Bluff Property Owners Association is a Texas non-profit corporation formed May 29, 1990. The purpose of the Association is to operate and maintain White Bluff homeowners project. The project consists of 6,350 lots and associated common areas located in Whitney, Texas.

FOOTNOTE 2: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 9, 2019, the date that the financial statements were available to be issued.

FOOTNOTE 3: The books and records for White Bluff Property Owners Association are maintained on the accrual basis of accounting.

FUND ACCOUNTING: The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restriction on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

OPERATING FUND: This fund is used to account for financial resources available for the general operations of the Association.

REPLACEMENT FUND: This fund is used to accumulate financial resources designated for future major repairs and replacements.

CASH AND CASH EQUIVALENTS: For the purposes of these financial statements, cash and cash equivalents are deemed to be cash in bank checking, savings and money market accounts and time deposits with a maturity date of ninety days or less.

REVENUES: Revenues are accrued semi-annually as the member assessments become due. Both the rate for members' assessments and the amount of any special assessments due are determined by the vote of the Board of Directors.

EXPENDITURES: Expenditures are recognized when incurred, rather than when paid. Unbudgeted, non-emergency expenditures exceeding \$ 500 must be approved by the President, Treasurer, or other member of the Board. All other expenditures, projects and services are contracted for using competitive bidding policies. The Board of Directors has the final approval on all contracts.

See the accompanying Independent Auditors' Report.

WHITE BLUFF PROPERTY OWNERS ASSOCIATION
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

FOOTNOTE 3: (CONTINUED):

ACCOUNTS RECEIVABLE: Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. The Association has a lien right against each unit until all dues or assessments are paid, such liens being subordinate to governmental and mortgage liens and legal fees associated with foreclosure proceedings. Any excess assessments at year end are retained by the Association for use in the succeeding year.

ALLOWANCE FOR DOUBTFUL ACCOUNTS: The allowance for doubtful accounts has been determined by the Association based on historical losses and by estimates based on current economic conditions. At December 31, 2018, the allowance for doubtful accounts of \$ 2,625,170 represents approximately 58.23 % of the total accounts receivable and approximately 58.54 % of the outstanding amounts in excess of ninety days old.

PROPERTY AND EQUIPMENT: The Association assumed, from the developer, the responsibility to maintain and preserve the common areas of the project. Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because the Association cannot dispose of this property. The Association capitalizes personal property, if any, at cost and depreciates it using the straight-line method, over applicable useful lives. Depreciation expense for the year was \$ 37,227.

FEDERAL INCOME TAX: The Association must make an annual election to file its Federal Income Tax return either under the provisions of the Internal Revenue code dealing specifically with Homeowners Associations (Section 528) or (Section 277 Sub-Chapter A), dealing with corporations in general. Section 528 would impose a tax rate of 30 % to the extent of the Association's non-exempt function net income, primarily vending, rental and interest income. Alternatively, Section 277 Sub-Chapter A imposes a tax rate of 21% on the Association's overall net income, if any.

As a result of the Association's operations for the year ended December 31, 2018, the Association has elected to file under Section 528. Income tax for the year was \$ -0-.

Currently, the open tax years available to audit by the IRS are 2016, 2017 and 2018. However, the Association has not been notified that any of these return years have been selected for audit by the IRS.

See the accompanying Independent Auditors' Report.

WHITE BLUFF PROPERTY OWNERS ASSOCIATION
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

FOOTNOTE 3: (CONTINUED):

ESTIMATES: The preparation of financial statements, in conformity with generally accepted accounting principles, 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 those estimates.

FOOTNOTE 4: COMMITMENTS: The Association enters into various contracts for management and accounting, lawn maintenance and other services. These contracts are generally for a term of one year and may generally be canceled by either party giving 30 days' notice.

FOOTNOTE 5: FAIR VALUE: The Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable (level 2 measurements), and the lowest priority to unobservable inputs (level 3 measurements). The carrying amounts reflected in the December 31, 2018 balance sheet for cash and cash equivalents approximate the respective fair values. All cash and cash equivalents, including money market accounts, are held in banks. The Association currently has no money market accounts with non-federally insured institutions.

FOOTNOTE 6: ECONOMIC DEPENDENCY: Double Diamond (developer) owns 724 of the 6,350 lots in the Association thereby constituting 11.40 % of the Association's voting power.

FOOTNOTE 7: LITIGATION: The Association was involved in a lawsuit against Double Diamond which resulted in a settlement agreement in March 2018.

See the accompanying Independent Auditors' Report.

WHITE BLUFF PROPERTY OWNERS ASSOCIATION
 FOOTNOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

FOOTNOTE 8: CHANGE IN MANAGEMENT COMPANY: The Association changed management company during 2018 from First Residential Services to Principal Management Group of North Texas.

FOOTNOTE 9: CONCENTRATIONS OF CREDIT RISK: Deposits held at banks are insured by the FDIC up to \$ 250,000. The Association has deposits at various banks, including U.S. Bank (U.S. Bancorp).

U.S. Bank (U.S. Bancorp) has a Surety Bond approved by the Office of Thrift Supervision for the protections of U.S Bank deposits in excess of the FDIC insurance limit. At December 31, 2018, the Association's combined accounts at U.S. Bank (U.S. Bancorp) totaled \$ 3,224,648, of which \$ 250,000 were FDIC insured and the remainder protected by U.S. Bank (U.S. Bancorp) Excess Deposit Surety Bond Program.

FOOTNOTE 10: NOTE PAYABLE: The Association financed the purchase of amenities through Double Diamond for \$ 3,550,000. The annual interest rate is 5.00 %, with a term of 20 years. Monthly payments of the amount of \$ 14,791.67 began in October of 2018 to September of 2020. Thereafter, monthly payments of principal and interest in the amount of \$ 23,428.43 are to be made beginning October 2020 to maturity date of October 1, 2048. Principal due over the next 5 years of the loan is as follows:

| | | |
|-------|----|-------------------|
| 2018 | \$ | -0- |
| 2019 | | 26,018.40 |
| 2020 | | 107,380.72 |
| 2021 | | 112,874.52 |
| 2022 | | 118,649.40 |
| TOTAL | \$ | <u>364,923.04</u> |

See the accompanying Independent Auditors' Report.

WHITE BLUFF PROPERTY OWNERS ASSOCIATION
 FOOTNOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

FOOTNOTE 11: PRIOR YEAR ADJUSTMENT: The Association did not have an audit for the year ended December 31, 2017. As a result, a prior year adjustment was made to the operating fund balance effective December 31, 2017 to properly account for the Association's expenses. The following adjustments were made to expense accounts:

| | |
|------------------------------|---------------------|
| Electric | \$ (4,719.75) |
| Water | (2,250.54) |
| Trash | (986.54) |
| Vehicle/Equipment/Furniture | (3,917.65) |
| Common Area Maintenance | (11,572.88) |
| Licenses/Permits/Inspections | (1,080.00) |
| Legal/Professional | (35,214.68) |
| Taxes – Real Property | (19,008.85) |
| Payroll | (16,002.63) |
| Administration | (7,104.10) |
| Accounting | 7,140.00 |
| Accumulated Depreciation | (1,023,604.68) |
| Retained Earning | <u>1,145,359.82</u> |
| TOTAL | <u>\$ 27,037.53</u> |

FOOTNOTE 12: REPLACEMENT FUND: The Association has not conducted a reserve study to determine the amount of future major repairs and replacements. The Association's governing documents require funds to be accumulated for future major repairs and replacements. For the year ended December 31, 2018, the Association added \$ 1,132,130, before earnings of \$ 48,458 to the replacement fund. Accumulated cash funds, which aggregate approximately \$ 2,900,365 at December 31, 2018, are held in separate accounts and are generally not available for operating purposes.

If replacement funds are not sufficient to fund future major repairs and replacements, the Association has the right to increase regular assessments or levy special assessments, or it may postpone needed repairs until funds are available.

See the accompanying Independent Auditors' Report.