

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.

FINANCIAL REPORT

DECEMBER 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
White Bluff Property Owners' Association, Inc.

We have audited the accompanying financial statements of White Bluff Property Owners' Association, Inc. (the Association), which comprise the balance sheets as of December 30, 2012 and January 1, 2012, and the related statements of revenues and expenses, changes in members' equity, 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.

White Bluff Property Owners' Association

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of White Bluff Property Owners' Association, Inc. at December 30, 2012 and January 1, 2012, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 17, 2013

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 30, 2012 AND JANUARY 1, 2012

	December 30, 2012	January 1, 2012
ASSETS		
Cash - undesignated	\$ 43,949	\$ 74,454
Cash - designated for future repairs and replacements	27,981	193,000
Accounts receivable, net of allowance of \$810,410 at December 30, 2012 and \$691,848 at January 1, 2012	448,279	372,030
Due from related parties	20,924	57,505
Inventory - fuel	681	681
Prepaid insurance	9,699	14,882
Other assets	22,109	3,582
Total current assets	573,622	716,134
Property and equipment, net	1,028,946	1,105,221
TOTAL ASSETS	\$ 1,602,568	\$ 1,821,355
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 129,762	\$ 154,026
Accrued liabilities	23,555	102,774
Due to related parties	1,307,144	1,249,248
Capital lease obligations - current portion	80,922	124,780
Notes payable - current portion	19,746	27,594
Total current liabilities	1,561,129	1,658,422
Capital lease obligations, net of current portion	29,814	105,884
Notes payable, net of current portion	10,277	18,392
Total long-term liabilities	40,091	124,276
Total liabilities	1,601,220	1,782,698
Members' equity	1,348	38,657
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 1,602,568	\$ 1,821,355

The Notes to Financial Statements are
an integral part of these statements.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 30, 2012 AND JANUARY 1, 2012

	<u>Year Ended December 30, 2012</u>	<u>Year Ended January 1, 2012</u>
REVENUES		
Maintenance fee income, net	\$ 3,816,276	\$ 3,842,374
Maintenance fees - roads	416,283	413,591
Other income	36,268	43,034
	<u>4,268,827</u>	<u>4,298,999</u>
EXPENSES		
General maintenance expenses	1,808,116	1,342,445
Golf course maintenance expenses	1,457,037	1,570,103
Road maintenance	504,906	222,797
Security	277,012	284,373
Depreciation and amortization	246,002	307,604
Interest expense	13,063	22,553
	<u>4,306,136</u>	<u>3,749,875</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	<u><u>\$ (37,309)</u></u>	<u><u>\$ 549,124</u></u>

The Notes to Financial Statements are an integral part of these statements.

**WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 30, 2012 AND JANUARY 1, 2012**

MEMBERS' DEFICIT, DECEMBER 26, 2010	\$ (510,467)
Excess of revenues over expenses	<u>549,124</u>
MEMBERS' EQUITY, JANUARY 1, 2012	38,657
Excess (deficit) of revenues over expenses	<u>(37,309)</u>
MEMBERS' EQUITY, DECEMBER 30, 2012	<u><u>\$ 1,348</u></u>

The Notes to Financial Statements are
an integral part of these statements.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 30, 2012 AND JANUARY 1, 2012

	<u>Year Ended December 30, 2012</u>	<u>Year Ended January 1, 2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficit) revenues over expenses	\$ (37,309)	\$ 549,124
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities		
Depreciation and amortization	246,002	307,604
Loss on disposal of property and equipment	3,044	-
Changes in assets and liabilities		
Accounts receivable	(76,249)	(172,847)
Prepaid insurance	5,183	(12,689)
Other assets	(18,527)	-
Accounts payable	(24,264)	26,076
Accrued liabilities	(79,219)	60,263
Net cash provided by operating activities	<u>18,661</u>	<u>757,531</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(172,771)	(92,237)
Net cash used in investing activities	<u>(172,771)</u>	<u>(92,237)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable borrowings	11,629	-
Due from related parties	36,581	(45,239)
Due to related parties	57,896	(557,623)
Repayments of capital lease obligations	(119,928)	(168,508)
Repayments of notes payable	(27,592)	(61,677)
Net cash used in financing activities	<u>(41,414)</u>	<u>(833,047)</u>
NET DECREASE IN CASH	(195,524)	(167,753)
CASH, BEGINNING OF YEAR	<u>267,454</u>	<u>435,207</u>
CASH, END OF YEAR	<u>\$ 71,930</u>	<u>\$ 267,454</u>
SUMMARY OF CASH ACCOUNTS		
Undesignated	\$ 43,949	\$ 74,454
Designated for future repairs and replacements	27,981	193,000
	<u>\$ 71,930</u>	<u>\$ 267,454</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 13,063	\$ 22,553
Noncash investing and financing activities acquisition of equipment through capital leases	<u>\$ -</u>	<u>\$ 192,496</u>

The Notes to Financial Statements are an integral part of these statements.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND ACCOUNTING PRINCIPLES

The Association

White Bluff Property Owners' Association, Inc. (the Association) was incorporated on May 29, 1990, in the State of Texas as a non-profit corporation. The Association is responsible for the operation and maintenance of the common property and roads within the development, and for maintaining the swimming pools, bathhouses, tennis courts, golf courses, recreational parks and pavilions, RV parks and boat storage facilities. The development consists of approximately 6,500 residential units located on approximately 3,500 acres in Hill County, Texas.

Reporting

The Association's financial statements are reported using thirteen-week quarters made up of two four-week periods followed by a five-week period. In certain years, the Association adds an additional week to the fiscal year in order for the year end to align closer to the calendar year end.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting where income is recorded when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all cash accounts and highly liquid investments with original maturities of 90 days or less to be cash or cash equivalents. Designated cash represents funds set aside at the direction of the board of directors of the Association to be used for future repairs and replacements.

Revenue Recognition

Association members are subject to semiannual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable at the balance sheet date represent fees due from lot owners (see Note 2). Any excess assessments at the end of any fiscal year are retained by the Association for use in the succeeding year.

Inventory

Inventory of fuel is stated at the lower of cost or market value.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND ACCOUNTING PRINCIPLES – CONTINUED

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ended December 30, 2012 and January 1, 2012, the Association elected to be taxed as a homeowners' association.

Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30%. For the years ended December 30, 2012 and January 1, 2012, there were no income taxes due. Exempt function income, which consists primarily of member assessments, is not taxable.

The Financial Standards Accounting Board has issued guidance in accounting for uncertainties in income taxes which requires that the Association recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The requirements also provide guidance on measurement, classification, interest and penalties and disclosure.

Tax positions taken related to the Association's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Association would more likely than not be sustained by examination. Accordingly, the Association has not recorded an income tax liability for uncertain tax positions. As of December 30, 2012 the Association's tax years 2010 through 2012 remain subject to examination.

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership. Property and equipment acquired by the Association are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to thirty years.

Property and equipment held under capital lease arrangements are included in property and equipment, and related obligations are recorded at an amount equal to the present value of future minimum lease payments computed at the Association's incremental borrowing rate or, when known, the interest rate implicit in the lease.

Depreciation of property held under capital lease arrangements is computed using the straight-line method over the estimated useful lives of the assets, which range from four to seven years.

**WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. ORGANIZATION AND ACCOUNTING PRINCIPLES – CONTINUED

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.

Concentrations of Credit Risk

The Association maintains its cash in bank deposit accounts. Under the Dodd Frank Act, the FDIC is providing 100% FDIC insurance on all noninterest bearing transaction accounts regardless of the deposit size. This is in addition to the \$250,000 FDIC insurance for interest bearing deposits. The expanded insurance coverage began on December 31, 2010 and ended December 31, 2012.

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 30, 2012 and January 1, 2012:

	December 30, 2012	January 1, 2012
	<u> </u>	<u> </u>
Accounts receivable	\$ 1,258,689	\$ 1,063,878
Allowance for doubtful accounts	<u>(810,410)</u>	<u>(691,848)</u>
Accounts receivable, net	<u>\$ 448,279</u>	<u>\$ 372,030</u>

Accounts receivable are presented net of the allowance for doubtful accounts. Accounts receivable consists of delinquent member assessments and billings for other services the Association provides. All the receivables are owed by property owners within the Association. In accordance with Association policy, a lien may be filed on properties where the dues billed become past due.

The Association's policy is to retain legal counsel and place liens on the property of members whose assessments are delinquent. If the Association forces foreclosure, the trustee of the foreclosed property sells the property at auction and the proceeds from the sale of the foreclosed property are used to pay the Association the delinquent assessments due and the related late fees and collection fees incurred by the Association related to the foreclosure process.

**WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment, including equipment under capital lease arrangements, consists of the following at December 30, 2012 and January 1, 2012:

	December 30, 2012	January 1, 2012
Land improvements	\$ 825,566	\$ 696,649
General maintenance equipment	689,261	695,100
Golf course maintenance equipment	1,774,102	1,747,884
Security equipment	51,938	51,938
Roads maintenance equipment	6,597	6,597
 Total depreciable assets	 3,347,464	 3,198,168
Less: accumulated depreciation	(2,318,518)	(2,092,947)
 Total property and equipment, net	 \$ 1,028,946	 \$ 1,105,221

Total depreciation expense for the years ended December 30, 2012 and January 1, 2012, totaled \$246,002 and \$307,604, respectively.

NOTE 4. NOTES PAYABLE

At December 30, 2012 and January 1, 2012, there was \$30,023 and \$45,986 outstanding, respectively, relating to notes payable to third parties for the purchase of vehicles. The notes bear interest at rates ranging from 5.99% to 9.50% with various maturity dates through 2014 and are secured by the vehicles.

Aggregate maturities of the notes payable are as follows:

Fiscal Years Ending	Amount
2013	\$ 19,746
2014	10,277
	\$ 30,023

**WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 5. CAPITAL LEASES

In conjunction with property and equipment held under capital lease arrangements, the Association is obligated under various capital lease obligations with payments to be made through August 2014.

At December 30, 2012, the future minimum lease payments due under capital lease agreements are as follows:

Fiscal Years Ending	Amount
2013	\$ 85,025
2014	30,163
	115,188
Amount representing interest	(4,452)
	110,736
Present value of minimum lease payments	(80,922)
Current portion	(80,922)
Long-term obligations under capital leases	\$ 29,814

For the years ended December 30, 2012 and January 1, 2012, interest expense related to the notes payable (see Note 4) and capital leases totaled \$13,063 and \$22,553, respectively.

NOTE 6. COMMITMENTS AND CONTINGENCIES

Leases

The Association leases certain equipment under non-cancelable operating leases that expire in 2013. Future minimum lease payments as of December 30, 2012, under the operating leases are as follows:

Fiscal Years Ending	Amount
2013	\$ 11,130

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6. COMMITMENTS AND CONTINGENCIES – CONTINUED

Litigation, Claims and Assessments

In the ordinary course of business, the Association may be subject to litigation, claims and assessments. Management has reviewed with counsel pending matters against the Association and has taken into consideration the views of such counsel as to the potential outcome of litigation. In management's opinion, final disposition of any pending matters will not have a material adverse effect on the Association's financial position, results of operations or cash flows.

In September 2009, a lawsuit styled Bridgewater, et al. v. Double Diamond-Delaware, Inc., et al. was filed in the Northern District of Texas. The Association is not a party to this lawsuit, but the plaintiffs have asserted claims challenging the validity of the food and beverage and maintenance fee assessments by the Association, which claims, if successful, would permanently prohibit the Association from collecting these fees from the plaintiffs. The plaintiffs sought to certify a class of all Association property owners who had paid the food and beverage fees and golf course maintenance fees and alleged class damages of more than \$5 million. In April 2011, the court declined to certify the class. The defendants filed a motion for summary judgment as to the claims of the remaining plaintiffs, which motion was denied without prejudice in light of a pending dispute between the parties as to whether an enforceable settlement agreement was reached by the parties at a January 2012 settlement conference. The plaintiffs have filed a motion to enforce settlement, which if granted, would resolve all claims asserted in the case while the defendants have filed a motion to reinstate the case to the court's trial docket. The competing motions were heard in April 2012 and on June 21, 2012, the court granted Plaintiff's motion to enforce the settlement and the order of the dismissal of the case.

In August 2011, a lawsuit styled John and Cathy Walkinshaw, et al. v. Double Diamond-Delaware, Inc., et al. (naming the Association as a nominal defendant) was filed in a Dallas County, Texas district court. No claims against the Association at this time have been filed, though they purport to assert one or more of their claims derivatively on behalf of the Association and they have asserted claims against all of the Association's Board members, claims for which the Association may have indemnification obligations. The plaintiffs assert various claims, including claims similar to the Bridgewater case with respect to validity and legality of food and beverage and maintenance fee assessments. The plaintiffs are seeking to recover unspecified money damages and permanent injunctive relief, among other things. On April 8, 2013, the court entered orders granting Plaintiffs' Motion for Partial and No-Evidence Motion for Summary Judgment and denying Defendants' Joint Motion for Partial Summary Judgment as to the validity of or invalidity of the assessments. The Judge declined to issue findings of fact or conclusions of law as to the basis of the Judge's rulings. The Judge suggested that the parties appeal the matter and thus stay any further proceedings until the Court of Appeals addresses the Judge's ruling. The Defendants' counsels are currently in discussions about how to proceed in this matter, which may include an appeal of the rulings discussed above.

**WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 6. COMMITMENTS AND CONTINGENCIES – CONTINUED

Litigation, Claims and Assessments – Continued

In August 2011, a lawsuit styled Adelberto and Maria Castillo, et al. v. Double Diamond-Delaware, Inc., et al. (naming the Association as a nominal defendant) was filed in a Hidalgo County, Texas district court. No claims against the Association at this time have been filed, though they purport to assert one or more of their claims derivatively on behalf of the Association and they have asserted claims against all of the Association's Board members, claims for which the Association may have indemnification obligations. The plaintiffs assert various claims, including claims similar to the Bridgewater case with respect to validity and legality of food and beverage and maintenance fee assessments. The plaintiffs are seeking to recover unspecified money damages and permanent injunctive relief, among other things. Discovery is ongoing and a trial date has been set for January 27, 2014. This case is being vigorously contested and the parties have a mediation deadline of December 30, 2013.

In the case styled Double Diamond Inc. and White Bluff Property Owners Association, Inc. v. Daniel Saturn, filed in the Fifth District Court of Appeals, Dallas, Texas, the Court of Appeals, in April 2011, entered judgment reversing the judgment of the trial court, which had entered judgment in favor of Daniel Saturn, a property owner at the White Bluff Resort.

The original trial granted Saturn's counterclaim for declaratory relief that declared the White Bluff hospitality credit program was invalid as to Saturn, and entered a permanent injunction as to enforcement of the food and beverage assessment against Saturn. The Court of Appeals also reversed the trial court's award of \$120,000 in attorneys' fees to Saturn, and remanded to the trial court the issue of whether either side should be awarded attorneys' fees in light of the Court of Appeals judgment. In May 2011, Saturn filed a petition for review with the Texas Supreme Court appealing the ruling of the Court of Appeals, which the Texas Supreme Court denied. The only remaining issue to be determined was the amount of attorney's fees, if any, to be awarded by the trial court to Saturn, the Association, or Double Diamond, Inc. Saturn filed a motion with the court seeking to recover \$120,000 in attorney's fees from the Association and from Double Diamond. The Association and Double Diamond filed a motion with the court seeking to recover approximately \$129,000 in attorneys' fees from Saturn. On May 18, 2012, the court denied recovery of attorneys' fees for both parties.

In defending the litigation, claims and assessments described above, legal fees totaling \$249,374 and \$82,038 in 2012 and 2011, respectively, were incurred directly by the Association, or allocated to the Association from a related entity, representing the Association's share of legal costs incurred by the related entity. The 2012 legal fees include \$16,641, representing one-half of the costs charged by a law firm that was engaged by the Association on behalf of the members for the purpose of assisting members in considering White Bluff related asset acquisitions from the related party developer.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7. RELATED PARTY TRANSACTIONS

The Association is affiliated with a group of companies through shared management and operating functions. Related party transactions with these related parties are as follows:

- During each of the years ended December 30, 2012 and January 1, 2012, the Association paid a related party, National Resort Management Corporation (NRMC), \$54,000, primarily for management and accounting services. In addition, in the normal course of business, payroll related to the Association is processed and administered by NRMC.
- In 2012, the Association began utilizing a designated Association bank account from which disbursements are paid to cover the operations of the Association. Prior to 2012 the Association utilized a centralized disbursement system whereby available cash balances were transferred to centralized accounts from which disbursements were paid on behalf of the Association.
- During the years ended December 30, 2012 and January 1, 2012, the Association incurred collection fees from a related party, United Equitable Mortgage Company (UEMC), totaling approximately \$48,000 and \$83,000, respectively, which is reflected as part of due to related parties in the accompanying balance sheets and included in general maintenance expenses in the accompanying statements of revenues and expenses. Such collection fees represent approximately 20% of the maintenance fees collected by UEMC.
- The Association assesses property owners semi-annually under a food and beverage credit program and collects payment thereon on behalf of White Bluff Club Corp. (WBCC), an affiliated entity. Collections under the food and beverage credit program totaled approximately \$630,000 and \$695,000, respectively, during the years ended December 30, 2012 and January 1, 2012. Such amounts received by and paid out from the Association are not considered revenues and expenses of the Association, but rather are considered revenues of WBCC. As these funds are collected by the Association, they are reflected as amounts due to related parties in the accompanying balance sheets.

**WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. RELATED PARTY TRANSACTIONS – CONTINUED

Included in due to affiliates in the accompanying balance sheets are amounts due to the following related party entities at December 30, 2012 and January 1, 2012:

<u>Related party</u>	<u>Year Ended December 30, 2012</u>	<u>Year Ended January 1, 2012</u>
Double Diamond Companies		
White Bluff Club Corp.	\$ 712,582	\$ 599,225
United Equitable Mortgage Corporation	456,439	406,831
Other due to related parties, net	<u>117,199</u>	<u>185,687</u>
 Total due to related parties, net	 <u>\$ 1,286,220</u>	 <u>\$ 1,191,743</u>

NOTE 8. 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. Although the Association has not conducted a complete independent study to determine the remaining useful lives of all of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future, the Association in 2011, did commission an independent engineering review to evaluate the condition of the Association's roads maintained by the Association. The results of the study recommended approximately \$1.2 million of major road repairs and replacements to be made in the short term (0-2 year period), and an additional \$1.2 million of major road repairs and replacements to be made over an intermediate term (2-6 year period).

In December 2011, the Association established separate bank accounts for future repairs and replacements and deposited \$143,000 into a separate Association account for future road repairs and replacements and \$50,000 into a separate Association account for future golf course repairs and replacements. As of January 1, 2012, no funds had been disbursed from these designated cash accounts.

During 2012, the Association transferred no funds into the road repairs and replacements account and disbursed \$140,006 from this account for road repairs and replacements. During 2012, the Association transferred \$50,000 into the golf course repairs and replacements account and disbursed \$75,013 from this account for golf course repairs and replacements.

WHITE BLUFF PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 9. SECURITY INTERESTS IN GOLF COURSES

Security Interest in New Golf Course

On April 16, 2012, the Association and White Bluff Golf, Inc. (WBGI), a related party and owner of the New Course, entered into an agreement (the New Course Greens Replacement Agreement) whereby the cost of renovating the greens on the New Course, including the cost of covers to protect such greens, are to be shared equally between WBGI and the Association. The total cost of the renovation and the covers totaled \$257,832 of which \$128,916 was paid for by the Association. In addition to any benefits that may accrue to the Association or its members for making such improvements, WBGI also agreed to grant the Association an interest in the New Course to the extent of the Association's investment in such improvements, such security interest to be subordinate to any bona fide third party lender from whom WBGI (or any of its affiliated entities) seeks to obtain financing and a security interest in the New Course. At December 30, 2012, the Association has included the New Course cost of the greens renovation and covers, net of accumulated depreciation of \$4,438, in property and equipment, net in the accompanying December 30, 2012 balance sheet. The security interest is to remain in existence until the earlier of a) the sale of the New Course by WBGI to a bona fide third party purchaser, or b) at such time the Association's paid for improvements have been fully depreciated.

Security Interest in Old Golf Course

On August 5, 2010, the Association and White Bluff Golf, Inc. (WBGI), a related party and owner of the Old Course, entered into an agreement (the Old Course Greens Replacement Agreement) whereby the cost of renovating the greens on the Old Course, including the cost of covers to protect such greens, are to be shared equally between WBGI and the Association. The total cost of the renovation and the covers totaled \$211,230 of which \$105,615 was paid for by the Association. In addition to any benefits that may accrue to the Association or its members for making such improvements, WBGI also agreed to grant the Association an interest in the Old Course to the extent of the Association's investment in such improvements, such security interest to be subordinate to any bona fide third party lender from whom WBGI (or any of its affiliated entities) seeks to obtain financing and a security interest in the Old Course. At December 30, 2012 and January 1, 2012, the Association has included the Old Course cost of the greens renovation and covers, net of accumulated depreciation of \$23,275 and \$13,398, respectively, in property and equipment, net in the accompanying balance sheet. The security interest is to remain in existence until the earlier of a) the sale of the Old Course by WBGI to a bona fide third party purchaser, or b) at such time the Association's paid for improvements have been fully depreciated.

NOTE 10. SUBSEQUENT EVENT

The date to which events occurring after December 30, 2012, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is May 17, 2013, which is the date on which the financial statements were available to be issued. No subsequent events were identified requiring adjustment to or disclosure in the financial statements.