

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and December 25, 2022

with Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

To the Members of
Rock Creek Resort Property Owners' Association, Inc.

Opinion

We have audited the financial statements of Rock Creek Resort Property Owners' Association, Inc. (the "Company"), which comprise the balance sheet as of December 31, 2023 and the related statements of income and changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

The financial statements of the Company for the year ended December 25, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on November 10, 2023. Modifications were made to the presentation of prior year balances to maintain consistency of the presentation with current year account mapping. No other prior year modifications were made.

Hext & Associates, P.C.

Dallas, Texas
October 4, 2024

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

BALANCE SHEETS

	December 31, 2023	December 25, 2022
Assets		
Current Assets:		
Cash and cash equivalents	\$ 173,349	\$ 1,119,255
Accounts receivable, net	340,426	169,369
Prepaid expenses	4,973	3,795
Total current assets	518,747	1,292,419
Finance lease right-of-use assets, net	484,988	293,585
Property and equipment, net	62,464	26,200
Total assets	<u>\$ 1,066,199</u>	<u>\$ 1,612,205</u>
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable	\$ 120,278	\$ 23,540
Accounts payable, related parties	7,058,335	8,560,705
Deferred revenue	56,957	46,331
Accrued expenses	8,766	131,926
Finance lease liabilities, current	152,991	92,771
Total current liabilities	7,397,327	8,855,273
Finance liabilities, long-term	265,668	180,865
Total liabilities	7,662,995	9,036,138
Commitments and contingencies		
Members' deficit	(6,596,796)	(7,423,933)
Total liabilities and members' equity	<u>\$ 1,066,199</u>	<u>\$ 1,612,205</u>

See accompanying notes to financial statements.

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

STATEMENTS OF INCOME AND CHANGES IN MEMBERS' EQUITY

	December 31, 2023	December 25, 2022
Revenues:		
Maintenance fees	\$ 3,248,794	\$ 2,948,782
Other income	184,559	191,654
Total revenues	3,433,353	3,140,436
Expenses:		
General maintenance	2,206,687	1,633,063
Golf course maintenance	1,332,048	1,167,593
Depreciation and amortization	101,238	99,922
Total expenses	3,639,973	2,900,578
Income (loss) from operations	(206,620)	239,858
Other income (expense):		
Interest expense	(11,308)	(7,594)
Gain (loss) on sale of assets	23,100	15,300
Other income (expense)	1,021,965	(5,151)
Total other income (expense)	1,033,757	2,555
Net income (loss)	827,137	242,413
Members' deficit, beginning	(7,423,933)	(7,666,346)
Members' deficit, ending	<u>\$ (6,596,796)</u>	<u>\$ (7,423,933)</u>

See accompanying notes to financial statements.

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	<u>December 31,</u> <u>2023</u>	<u>December 25,</u> <u>2022</u>
Operating Activities:		
Net income (loss)	\$ 827,137	\$ 242,413
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	10,226	33,148
Amortization expense	91,013	66,774
Gain on sale of assets	(23,100)	15,300
Non-cash interest expense	11,112	6,621
Changes in operating assets and liabilities:		
Accounts receivable	(171,057)	(67,663)
Prepaid expenses	(1,178)	169
Accounts payable, related parties	(1,502,370)	898,143
Accounts payable and accrued expenses	(15,796)	(162,625)
Net cash provided by operating activities	<u>(774,013)</u>	<u>1,032,280</u>
Investing Activities:		
Sale of property and equipment	23,100	-
Purchase of property and equipment	(46,489)	-
Net cash used in investing activities	<u>(23,389)</u>	<u>-</u>
Financing Activities:		
Payments on finance leases	(148,504)	(117,405)
Net cash used in financing activities	<u>(148,504)</u>	<u>(117,405)</u>
Net increase (decrease) in cash and cash equivalents	(945,906)	914,875
Cash and cash equivalents at the beginning of year	<u>1,119,255</u>	<u>204,380</u>
Cash and cash equivalents at the end of year	<u>\$ 173,349</u>	<u>\$ 1,119,255</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 1,366</u>	<u>\$ 840</u>
Right-of-use assets reclassified due to adoption of ASC 842	<u>\$ -</u>	<u>\$ 280,891</u>
Right-of-use assets assumed during the year	<u>\$ 282,416</u>	<u>\$ 177,342</u>
Leases reclassified due to adoption of ASC 842	<u>\$ -</u>	<u>\$ 120,121</u>
Lease assumed through lease liability	<u>\$ 282,416</u>	<u>\$ 177,342</u>

See accompanying notes to financial statements.

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and December 25, 2022

1. Nature of Operations

Rock Creek Resort Property Owners Association, Inc. (the "Company") was incorporated as a not-for-profit corporation on January 14, 2007, in the state of Texas. The Company is responsible for the management and the maintenance of the common property within the development. The development consists of approximately 2,600 lots with 150 homes located on 1,300 acres in Grayson County, Texas.

2. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Financial Statement Presentation

The Company's financial statements are reported using thirteen-week quarters made up of two four-week periods followed by a five-week period. The fiscal year ended on December 31, 2023 and December 25, 2022, respectively.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual events and results could differ from such assumptions and estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the management of the Company considers cash accounts with an original maturity of three months or less to be cash equivalents. The Company maintains cash and cash equivalents at several financial institutions, which at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consist of delinquent member assessments and billings for other services the Company provides, and they are stated at amounts management expects to collect from outstanding balances. All receivables are owed by property owners within the Company. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Account balances that have been delinquent for over two years have been included in the allowance for doubtful accounts. As of December 31, 2023 and December 25, 2022, the allowance for doubtful accounts was \$45,300 and \$25,430, respectively.

Revenue Recognition

The Company's members are subject to monthly and special assessments to provide funds for the Company's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable, at the balance sheet date, represent fees due from lot owners. Members are billed semi-annually for maintenance fees which are recognized over the month in which they relate as the Company provides maintenance on properties and quality of life improvements.

Contract assets represent the Company's right to consideration based on satisfied performance obligations from contracts with customers.

Property and Equipment

The Company capitalizes property and equipment to which it has title or other evidence of ownership. Maintenance, repairs, and minor improvements that do not extend the useful life of an asset are expensed as incurred. Property and equipment acquired by the Company is recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. The Company capitalizes assets with a value of more than \$2,500 and a useful life greater than two years.

Income Taxes

The Company elected to be taxed as a homeowners' association. Under that election, The Company is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30 percent. Exempt function income, which consists primarily of assessments, is not taxable.

In addition, the Company applies Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, Accounting for Uncertainty in Income Taxes, and has evaluated its uncertain tax positions and has not identified any material uncertain tax positions that would not be sustained in a federal or state income tax examination or that require disclosure. Accordingly, no provision for uncertain tax positions in income taxes has been made in the accompanying financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

2. Summary of Significant Accounting Policies - (continued)

Adoption of New Accounting Standards

On December 26, 2022, the Company adopted ASU 2016-13 *Financial Instructions – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The Company adopted this standard using the modified retrospective approach as it applies to the valuation of accounts receivable, with no material impact on the financial statements. Management's analysis of expected credit losses on accounts receivable did not result in any changes to the estimation process for the allowance for doubtful accounts. However, management will continue to assess the expected realizable value of accounts receivable on an annual basis under the new standard.

3. Property and Equipment

Property and equipment by major classification and the related accumulated depreciation consists of the following:

	December 31, 2023	December 25, 2022
Furniture and fixtures	\$ 3,427	\$ 3,427
Vehicles and equipment	1,964,081	1,917,592
Total depreciable assets	1,967,508	1,921,019
Less: accumulated depreciation	(1,905,044)	(1,894,819)
Property and equipment, net	<u>\$ 62,464</u>	<u>\$ 26,200</u>

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

4. Leases

A lease provides the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. Operating lease right-of-use assets represent the Company's right to use an underlying asset for the lease term and finance lease right-of-use assets represent assets the Company will retain ownership of after the lease term ends. Operating lease liabilities and finance lease liabilities (collectively, "lease liabilities") represent the Company's obligation to make lease payments arising from the lease. The Company determines if an arrangement is a lease at inception. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company excludes short-term leases having initial terms of 12 months or less from ROU assets and lease liabilities and recognizes rent expense on a straight-line basis over the lease term.

The Company has leases for certain equipment. The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Company utilizes the risk-free rate. ROU assets include any lease payments required to be made prior to commencement and exclude lease incentives. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Company's lease agreements do not contain significant residual value guarantees, restrictions or covenants.

There were no short-term lease costs or operating leases for the year ended December 31, 2023.

Maturities of finance lease liabilities as of December 31, 2023 are as follows:

2024	\$	163,699
2025		154,600
2026		81,221
2027		28,196
2028		11,748
Total lease payments		<u>\$439,464</u>
Less amount representing interest		<u>(20,805)</u>
Lease liabilities	\$	<u><u>418,659</u></u>

Weighted average lease term and discount rate as of December 31, 2023 are as follows:

Weighted average remaining lease term (years)	
Financing leases	2.975
Weighted average discount rate	
Financing leases	2.99%

ROCK CREEK RESORT PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

4. Leases – (continued)

Finance ROU and lease activity for the year are as follows:

Finance ROU assets, net - December 25, 2022	\$ 293,585
ROU assets recognized during the year	282,416
Amortization during the year	(91,013)
Finance ROU assets, net - December 31, 2023	<u>\$ 484,988</u>
Finance lease liabilities - December 25, 2022	\$ 273,636
Liabilities added during the year	282,416
Payments and interest during the year	(137,393)
Finance ROU assets, net - December 31, 2023	<u>\$ 418,659</u>

5. Notes Payable

The company has no Notes Payable as of 12/31/2023 or 12/22/2022. All debt is in the form of finance lease liabilities. Prior period Notes Payable were reclassified to be included in the finance lease balance.

6. Related Party Transactions

The Company is affiliated with a group of companies under the control of the developer of the community. In the normal course of business, The Company utilizes a centralized disbursement system whereby available cash balances are transferred to centralized accounts from which disbursements are paid on behalf of The Company. Related party transactions with these affiliated companies are as follows:

	<u>December 31, 2023</u>	<u>December 25, 2022</u>
Accounts payable, related party	<u>\$ (7,058,335)</u>	<u>\$ (8,560,705)</u>
Management fee expense	<u>\$ 115,787</u>	<u>\$ 88,258</u>

7. Future Major Repairs and Replacements

The Company's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. When funds are required for major repairs and replacements, the Company plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available.

8. Subsequent Events

In preparing the financial statements, the Company has evaluated all subsequent events and transactions for potential recognition or disclosure through October 4, 2024, the date the financial statements were available for issuance. No significant subsequent events were identified.