

HIGHLANDS PROPERTY OWNERS' ASSOCIATION, INC.
ANNUAL MEETING OF MEMBERS
SEPTEMBER 26, 2020

An Annual Meeting of the Property Owners ("Members") of the Highlands Property Owners' Association, Inc. (the "Association") was held outdoors at the Highlands Pavilion, White Bluff Resort on Lake Whitney, on Saturday, September 26, 2020 at 2:00 pm. Members of Association were properly notified of this meeting and were invited to attend. The Agenda for this meeting is attached to these minutes.

Gerry Mayer, President and Director of the Association, called the meeting to order at 2:08 pm and began by welcoming all Members in attendance and introducing Board members Tommy Edgar and Michael Pollard.

Mr. Edgar reported that valid proxies for 75 lots had been submitted prior to the meeting, representing 26% of all voting lots in the Highlands, and stated that the Association's Bylaws require 25% to establish a quorum. Mr. Mayer declared that a quorum existed.

Mr. Mayer reported that each of the three incumbent directors has agreed to serve for an additional 2-year term. Mr. Mayer asked if there were any nominations from those in attendance. Hearing none, a motion was made by Mr. Pollard to elect Gerry Mayer, Tommy Edgar and Michael Pollard for an additional 2-year term as directors of the Association. After being seconded by Mr. Edgar, the motion was submitted to the vote of the Members present or represented by proxy. As a result, Messrs. Mayer, Edgar and Pollard were duly elected.

Mr. Mayer then provided a report on the operations of the Association in 2019, including:

- **February** – Entered into a financial services agreement effective April 1, 2019 with Principal Management Group of North Texas, an Associa company, to provide financial only management services to the Association.
- **May** – Completed renovation and painting of the pool building and pavilion and landscaping improvements at the front gate.
- **November** – Renegotiated the service agreement with White Bluff POA for grounds and pool maintenance to eliminate or significantly reduce the level of service needed during the months of November through February, saving approximately \$1,000 per month during this period. Along with this action, the Board decided to close the pool from November through March in order to cut the run time on pool pumps in half.

Mr. Mayer also reported certain actions taken by the Board to reduce the amount of water consumption at the pool/pavilion.

Mr. Mayer then reported on the issue of delinquent Member accounts. When control of the Association was transferred from Double Diamond to the current Board in May 2018, delinquent accounts totaled ~\$44,000 (75 accounts). Currently, excluding collection charges and late fees that have been added in 2020, there are 41 delinquent accounts totaling more than ~\$55,000. Beginning in 2020, Associa began assessing late fees and interest to delinquent accounts, as well as charging delinquent accounts for various collections actions,

including credit bureau reporting. The Board has also sent emails to some Members in attempts to encourage compliance, but received very little response. The Board is currently reviewing all delinquent Member accounts to determine if lien filings would be cost-effective on some of the larger delinquent accounts.

Mr. Mayer then called on Mr. Pollard to report on the financial condition of the Association and to present the 2020 Operating Budget. Mr. Pollard presented comparative Balance Sheets of the Association as of December 31, 2019 and 2018, and a Profit & Loss statement for each of the two years ended December 31, 2019. Mr. Pollard then presented the Operating Budget of the Association for the calendar year 2020 along with comparative budgets for 2018 and projected 2021. Copies of these statements are attached to these minutes.

Following is a summary of the key financial factors discussed:

- **Assessment Collections:** In 2019, we collected a total of ~\$48,000, of which ~\$41,000 was related to 2019 assessments and ~\$7,000 was related to the collection of delinquent accounts from 2018 and prior. Thus far in 2020, we have collected ~\$45,000, with ~\$39,000 related to current 2020 assessments, implying a current collection rate near 80%.
- **Projected Cash Flow for 2020 and 2021:** Based on the current assessment fee schedule, which has not changed since 2007, and further based on a current collection rate of ~80%, cash flow from operations in 2020 and 2021 will be at or near breakeven.
- **Debt Service:** In connection with the transfer of control of the Association from Double Diamond, Inc. ("DDI") to the current Board of Directors effective May 1, 2018, the Association issued an unsecured promissory note to DDI in the principal amount of \$75,000, bearing interest at 5% per year and payable in 10 equal annual installments of \$9,712.84 beginning May 1, 2019. The note was issued in full settlement of ~\$88,000 of indebtedness to DDI.
- **Declining Cash Balance:** The Association's cash balance declined by ~\$19,000 in 2019 due primarily to expenditures for major repairs to the pool/pavilion of ~\$15,000 and debt service of ~\$9,700. The combination of projected breakeven cash flow and the mandatory debt service to DDI will continue to erode our cash position by ~\$10,000 per year in 2020 and 2021 unless corrective measures are implemented.

Mr. Mayer then provided details of the Board's analysis of projected collections in 2021 by number of paying and defaulting Members. Based on current rates, collections for 2021 are projected to be ~\$41,000. As discussed during the financial review, this level of collections is not sufficient to allow the Association to meet its debt service obligations under current assessment and collection rates. Mr. Mayer stated that the Board is open to any suggestions on how to resolve this cash shortfall. Discussion ensued about ways to get lots into the hands of paying property owners and other possible collections actions, but those in attendance generally agreed that those actions will take time to develop. Mr. Mayer then explained that based on the Board's analysis, an increase of the single lot assessment rate from \$230 per year to \$300 per year (with proportionate increases in all of the multi-lot rates) would generate an additional \$13,000 per year assuming the current 80% collection rate. Mr. Mayer emphasized that the Board will consider all viable options available to resolve the cash flow shortfall. If an assessment increase is deemed necessary, that action will be done in a properly called open meeting of the Board.

Mr. Mayer then opened the floor for questions from the Members. Further discussion ensued about the Association's delinquency problem and ways to resolve it. It was mentioned that Whitney ISD had listed its four lots in the Highlands for public auction, and all were hopeful that those lots would end up being owned by owners that will pay assessments.

The meeting was adjourned at 3:00 pm.

Highlands Property Owners' Association, Inc.
Annual Meeting of Property Owners/Members
Highlands Pavilion
White Bluff Resorts on Lake Whitney
Thursday, September 26, 2020
2:00 p.m.

Agenda

1. WelcomeGerry Mayer
2. Call to OrderGerry Mayer
3. Confirm Quorum.....Tommy Edgar
4. Election of DirectorsTommy Edgar
5. Report on OperationsGerry Mayer
6. Report on Voting Results.....Tommy Edgar
7. Report on Financial Condition.....Michael Pollard
8. Questions/AnswersGerry Mayer
9. AdjournmentGerry Mayer

Highlands Property Owners Association, Inc.

Profit & Loss

09/30/20

January through December 2019

Accrual Basis

	Jan - Dec 19	Jan - Dec 18
Ordinary Income/Expense		
Income		
Assessments		
Current Period Collections	47,885.13	51,882.00
Prepayments - Net	0.00	(4,883.50)
Total Assessments	47,885.13	46,998.50
Total Income	47,885.13	46,998.50
Expense		
Administration		
Bank Charges	0.00	81.53
Contract Services	0.00	250.00
Management Fees	2,997.00	250.00
Postage and Delivery	783.44	240.04
Printing & Copying	1,952.30	449.79
Professional Fees	750.00	0.00
Administration - Other	312.94	86.13
Total Administration	6,795.68	1,357.49
Insurance Expense	1,108.50	2,190.00
Property Taxes	4.44	5.00
Repairs & Maintenance		
Entry	1,510.32	786.23
Grounds	12,117.95	6,857.00
Pool	9,123.97	6,664.65
Total Repairs & Maintenance	22,752.24	14,307.88
Utilities		
Electricity	5,415.08	2,729.63
Telephone	1,161.13	927.94
Water	8,626.63	11,613.53
Total Utilities	15,202.84	15,271.10
Total Expense	45,863.70	33,131.47
Net Ordinary Income	2,021.43	13,867.03
Other Income/Expense		
Other Income		
Gain on debt settlement	0.00	13,518.43
Total Other Income	0.00	13,518.43
Other Expense		
Bad Debt Expense	1,369.25	0.00
Major Repairs	18,400.00	0.00
Interest Expense	3,551.20	2,500.00
Total Other Expense	23,320.45	2,500.00
Net Other Income	(23,320.45)	11,018.43
Net Income	(21,299.02)	24,885.46

Balance Sheet

As of December 31, 2019

	Dec 31, 19	Dec 31, 18
ASSETS		
Current Assets		
Checking/Savings		
Pacific Premier Bank Operating	21,079.91	0.00
First Bank Whitney	16,077.86	55,726.25
Total Checking/Savings	37,157.77	55,726.25
Other Current Assets		
Prepaid Insurance	1,108.50	0.00
Receivable from Property Owners		
Maintenance Fees Receivable	41,561.81	38,593.90
Allowance - Uncollectible Accts	(41,561.81)	(38,593.90)
Total Receivable from Property Owners	0.00	0.00
Receivable from Double Diamond	0.00	1,840.00
Total Other Current Assets	1,108.50	1,840.00
Total Current Assets	38,266.27	57,566.25
Fixed Assets		
Property and Equipment		
Facilities	4,500.00	4,500.00
Total Property and Equipment	4,500.00	4,500.00
Total Fixed Assets	4,500.00	4,500.00
Other Assets		
Security Deposits	2,010.00	760.00
Total Other Assets	2,010.00	760.00
TOTAL ASSETS	44,776.27	62,826.25
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Other Current Liabilities		
Accrued Expenses	3,385.87	5,634.00
Deferred Maintenance Fees	13,257.51	4,883.50
Total Other Current Liabilities	16,643.38	10,517.50
Total Current Liabilities	16,643.38	10,517.50
Long Term Liabilities		
Long-term Debt		
Note to Double Diamond Inc	69,037.16	75,000.00
Total Long-term Debt	69,037.16	75,000.00
Total Long Term Liabilities	69,037.16	75,000.00
Total Liabilities	85,680.54	85,517.50
Equity		
Reserve for Contingencies	6,086.00	3,000.00
Retained Earnings	(25,691.25)	(50,576.71)
Net Income	(21,299.02)	24,885.46
Total Equity	(40,904.27)	(22,691.25)
TOTAL LIABILITIES & EQUITY	44,776.27	62,826.25