

**GENTRY MILLS CAPITAL, LLC**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITORS' REPORT**  
**DECEMBER 31, 2013**



## INDEPENDENT AUDITORS' REPORT

### SHAREHOLDERS

David B. Epperson  
J. Clinton Pugh  
Virginia L. DeBrow  
John P. Boyd  
Tamara Berley  
Kurtis N. Smith  
Daniel W. DeLaughter  
Michael K. Frank  
Michael S. Woodruff  
—  
John W. Saville 1923-1996  
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### PRINCIPALS

Ann Searcy

To the Members of  
Gentry Mills Capital, LLC  
Dallas, Texas

We have audited the accompanying financial statements of Gentry Mills Capital, LLC, a Texas limited liability company (the "Company"), which comprise the balance sheet as of December 31, 2013, and the related statements of income, changes in members' equity, 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 (GAAP); 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 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.

**Saville, Dodgen & Company, P.L.L.C.**  
*Certified Public Accountants & Advisors*

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

Basis for Adverse Opinion

As more fully described in the "Basis of Accounting" note to the financial statements, the Company's financial statements do not include the accounts of certain property level partnerships that the Company has determined are variable interest entities and in which the Company holds a variable interest and is the primary beneficiary. The Company instead recorded a carried interest in the property level partnerships that is dependent upon future, uncertain events such as sales price and cash flows among other factors. In our opinion, GAAP requires that the Company consolidate its investment in these property level partnerships. It was not practicable to determine the effect of the consolidation departure on the financial statements.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with GAAP, the financial position of Gentry Mills Capital, LLC as of December 31, 2013, or the results of its operations or its cash flows for the year then ended.

*Saville Dodgen & Co. PLLC*

Saville, Dodgen & Company, P.L.L.C.  
Dallas, Texas

August 22, 2014

GENTRY MILLS CAPITAL, LLC  
BALANCE SHEET  
DECEMBER 31, 2013

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ASSETS

CURRENT ASSETS

Cash	\$ 63,853
Related party receivables	1,174,784
Other current assets	100,000

1,338,637

Total current assets

OTHER ASSETS

Property and equipment, net	718
Interest in related entities	6,313,284

6,314,002

Total other assets

TOTAL ASSETS

\$ 7,652,639

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Bridge loans	\$ 678,732
Accounts payable	1,077
Accrued liabilities	20,872
Deferred O&O expense reimbursements	41,402

742,083

Total current liabilities

TOTAL LIABILITIES

742,083

MEMBERS' EQUITY

6,910,556

TOTAL LIABILITIES AND MEMBERS' EQUITY

\$ 7,652,639

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2013

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REVENUE	
Acquisition fees	\$ 661,698
Management fees	196,000
	<u>857,698</u>
EXPENSES	
Property administrative expenses, net	5,451
General and administrative, net	15,845
Professional fees	220,849
Depreciation	642
	<u>242,787</u>
INCOME FROM OPERATIONS	<u>614,911</u>
OTHER INCOME	<u>32,919</u>
NET INCOME	<u>\$ 647,830</u>

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC  
STATEMENT OF CHANGES IN MEMBERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2013

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Balance, January 1, 2013	\$	4,443,967
Net income		647,830
Member distributions		(220,846)
Carried interest in related entities		<u>2,039,605</u>
Balance, December 31, 2013	\$	<u><u>6,910,556</u></u>

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income	\$ 647,830
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	642
Changes in operating assets and liabilities:	
Related party receivables	(202,204)
Other current assets	(100,000)
Accounts payable	(28,365)
Accrued liabilities	(91,603)
Deferred revenue	(37,911)
Related party payables	(55,000)
Net cash provided by operating activities	<u>133,389</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Member distributions	<u>(220,846)</u>
Net cash used in financing activities	<u>(220,846)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(87,457)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>151,310</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 63,853</u></u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>	
Noncash investing and financing activity:	
Interest in related entities	<u>\$ 2,039,605</u>
Bridge loan repayments made by related parties	<u>\$ 7,863,971</u>
Interest payments made by related parties	<u>\$ 737,430</u>

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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NATURE OF BUSINESS

Gentry Mills Capital, LLC, a Texas limited liability company (the “Company”), was formed in 1998. The Company principally provides investment offerings in existing and developmental real estate projects. The Company’s primary operations are located in Dallas, Texas.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the Company are prepared using accounting principles generally accepted in the United States of America (“GAAP”), except for the interests in the related parties listed below, collectively referred to as “Property Level Partnerships.”

Property Level Partnerships
Gentry Mills Investment, LP
GMI-108 Mission, LP
GMI-192 Mission, LP
GMI-Mueller Hospitality, LP
GMI-ALH 20, LP
GMI-ES 14, LP
Bay Vista I, Apartments LP
164 Corpus, LP
GMI-Camp Creek, LP
GMI-Pine Hill Crossing, LP
GMI-Broomfield 139, LP

The Company has 100% ownership of the entities that are the general partner of the above listed Property Level Partnerships. Therefore, since the Company has control relating to the Property Level Partnerships, they are considered variable interest entities where the Company is the primary beneficiary. GAAP requires that these entities be consolidated; however, the Company has elected not to consolidate these entities and will not make variable interest entity related disclosures. Instead of showing the equity interest in the Property Level Partnerships, the Company has recorded a carried interest in the Property Level Partnerships that is dependent upon future, uncertain events such as sales price and cash flows among other factors.

It was not practicable to determine the effect of the consolidation departure on the financial statements.

See accompanying independent auditors’ report.

GENTRY MILLS CAPITAL, LLC  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Statement of Cash Flows

The Company considers all instruments with an original maturity of three months or less to be cash equivalents. The Company has a concentration of credit risk for cash deposits maintained at certain financial institutions which, at times, may exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Property and Equipment

Property and equipment are comprised mostly of computer equipment and are recorded at cost. Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is included in the statement of income for the respective period. Depreciation for computer equipment is computed using the straight-line method over the estimated useful life of five years.

Disposition Fees

In accordance with offering memorandum documents, the Company will receive a disposition fee once either the underlying assets of the Property Level Partnerships or the partnerships themselves are sold. This fee will be in the amount of 1% of the sales price. Therefore, the amounts are not truly earned until the sale has occurred. As described in the “Basis of Accounting” note above, the Company has elected to show these fees as receivables on the balance sheet along with deferred revenue relating to these fees.

Deferred Revenue

Deferred revenue consists of funds received from Property Level Partnerships for property management expenses that have not yet been incurred and disposition fees that have not been received or earned as mentioned in the previous note.

See accompanying independent auditors’ report.

GENTRY MILLS CAPITAL, LLC  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company recognizes revenue when it is earned in accordance with offering memoranda.

Expense Reimbursements

The Company is entitled to reimbursement from the Property Level Partnerships for organization and operating costs, as well as general and administrative expenses incurred. The Company accrues for this reimbursement for all properties with an effective prospectus in place during the year. Organization and operating costs are tracked specific to each project. General and Administrative expenses are allocated to each property based on each project's relative size to the other projects that are active, representing management's best estimate of the reimbursement to be received. The actual reimbursement that is received may differ from this estimate.

Income Taxes

The Company has elected to be treated as a partnership for federal income tax purposes. The income tax effects of its operations are attributed to the members. Therefore, no provision for federal income tax has been included in the Company's financial statements. The Company is subject to state margin tax, but no provision has been incurred for the year ended December 31, 2013. The Company is no longer subject to U.S. federal examination for years before 2010.

RELATED PARTY TRANSACTIONS

Bridge Loans

With each investment offering made, the Company takes a bridge loan to provide the upfront capital to the Property Level Partnerships. These bridge loans are short term in nature and are in the name of the Company. The Company deposits the bridge loans received into the Property Level Partnerships, and the Property Level Partnerships make the principal and interest payments in accordance with the loan documents on behalf of the Company.

During the year ended December 31, 2013, there were no new borrowings in the name of the Company and \$7,863,971 was repaid by certain Property Level Partnerships.

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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RELATED PARTY TRANSACTIONS (continued)

At December 31, 2013, the Company has one bridge loan outstanding, which will expire in 2014. The bridge loan accrues interest at a rate of 12%. Interest is payable monthly, and principal is payable as amounts are received from the investment offerings but no later than the maturity date. The bridge loan is secured by the Company's membership interests in the applicable Property Level Partnerships. As of December 31, 2013, the bridge loan balance is \$678,732 which is shown as a current liability on the accompanying balance sheet.

Interest expense incurred during the year relating to these bridge loans amounted to \$755,894. Of this amount, \$737,430 was paid for by the Property Level Partnerships, and the remaining \$18,464 represents accrued interest. Since interest expense is paid directly by the Property Level Partnerships, the Company does not record interest expense or the related reimbursement in the statement of income. In the event the Property Level Partnerships do not comply with the repayment terms of the bridge loans, the Company would be responsible for the outstanding principal balance and related interest.

Carried Interest in Related Entities

During the year ended December 31, 2013, the Company recorded a carried interest in the Property Level Partnerships that is dependent upon future, uncertain events such as sales price and cash flows among other factors as mentioned in the "Basis of Accounting" disclosure above. At year end, the following amounts were recorded as carried interest and included in assets and equity:

<u>Entity</u>	<u>Prior to 2013</u>	<u>During 2013</u>	<u>Total</u>
GMI-ALH 20, LP	\$ 407,402	\$ -	\$ 407,402
GMI-Bay Vista Apartments I, LP	499,740	58,651	558,391
GMI-164 Corpus, LP	695,025	1,980,954	2,675,979
GMI-108 Mission, LP	1,178,507	-	1,178,507
GMI-192 Mission, LP	770,494	-	770,494
GMI-Mueller Hospitality, LP	722,511	-	722,511
Total	<u>\$ 4,273,679</u>	<u>\$ 2,039,605</u>	<u>\$ 6,313,284</u>

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

RELATED PARTY TRANSACTIONS (continued)

Related Party Receivables

At December 31, 2013, related party receivables amounted to the following:

Entity	Bridge Loan	Accrued Interest	Expense Reimbursement	Management Fees	Total
GMI-ALH 20, LP	\$ -	\$ -	\$ 76,425	\$ -	\$ 76,425
GMI-164 Corpus, LP	-	4,878	34,711	-	39,589
GMI-Bay Vista Apartments I, LP	678,732	13,586	53,194	-	745,512
GMI-Mueller Hospitality, LP	-	-	84,000	63,000	147,000
GMI-108 Mission, LP	-	-	92,208	-	92,208
GMI-192 Mission, LP	-	-	74,050	-	74,050
	<u>\$ 678,732</u>	<u>\$ 18,464</u>	<u>\$ 414,588</u>	<u>\$ 63,000</u>	<u>\$1,174,784</u>

Management Fees

During the year ended December 31, 2013, the Company received in cash the following management fees from certain Property Level Partnerships:

GMI-ALH 20, LP	\$ 27,500
GMI-164 Corpus, LP	32,500
GMI-Bay Vista I, LP	32,500
GMI-108 Mission, LP	27,500
GMI-192 Mission, LP	30,000
GMI-Camp Creek, LP	5,000
GMI-ES 14	5,000
Total	<u>\$ 160,000</u>

The Company has \$36,000 in management fees earned during the year ended December 31, 2013, and \$27,000 that were earned during the year ended December 31, 2012 that were not collected as of year-end, and are therefore included in the "Related Party Receivables" disclosure above.

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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RELATED PARTY TRANSACTIONS (continued)

Reimbursed Expenses

During the year ended December 31, 2013, the Company received the following amounts as expense reimbursements from certain Property Level Partnerships:

<u>Entity</u>	<u>Property Administrative Expenses</u>	<u>Interest Expense</u>	<u>Total</u>
GMI-ALH 20	\$ 82,196	\$ 2,093	\$ 84,289
GMI-164 Corpus	102,456	257,114	359,570
GMI-Bay Vista I, LP	102,456	478,223	580,679
GMI-192 Mission, LP	2,500	-	2,500
GMI-Pine Hill Crossing, LP	42,500	-	42,500
Total	<u>\$ 332,108</u>	<u>\$ 737,430</u>	<u>\$ 1,069,538</u>

Of the amount of property administrative expense reimbursements received during the year ended December 31, 2013, \$41,402 had not actually been incurred; therefore, the Company included this in the current portion of deferred revenue on the accompanying balance sheet as of December 31, 2013.

Member Distributions

During the year ended December 31, 2013, the Company paid distributions to members in the amount of \$220,846.

PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2013:

Computer equipment, cost	\$ 10,174
Less accumulated depreciation	<u>(9,456)</u>
Property and equipment, net	<u>\$ 718</u>

Depreciation amounted to \$642 for the year ended December 31, 2013.

OPERATING LEASES

The Company leased office space and a copier under operating leases expiring through 2016. The office space lease is month to month; therefore, there are no future minimum lease payments required. Rent expense of approximately \$18,606 has been included in general and administrative expenses in the statement of income for the year ended December 31, 2013.

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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OPERATING LEASES (continued)

The following is a schedule, by years, of approximate future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2013.

Year Ending December 31,	
2014	\$ 3,577
2015	3,577
2016	<u>1,094</u>
	<u>\$ 8,248</u>

401(K) PLAN

The Company participates in a 401(k) plan (the “Plan”) which covers all eligible employees of the Company. The Plan provides for contributions by the Company at management’s discretion. The Company did not make any contributions to the Plan for the year ended December 31, 2013.

CONCENTRATION OF CREDIT RISK

The Company has a concentration of related party receivables arising from two related parties that comprise approximately 76% of the related party receivables balance at December 31, 2013. The Company has a concentration of revenue arising from two related parties that comprise approximately 85% of revenue for the year ended December 31, 2013.

SUBSEQUENT EVENTS

The Company evaluated events through August 22, 2014, which is the date these financial statements were available to be issued, and noted there were no events that met recognition or disclosure criteria.

See accompanying independent auditors’ report.