



HARNEY  
PARTNERS

# PRIDE OF AUSTIN HIGH YIELD FUND I, LLC



Forensic Report  
April 2025

# Disclaimer & Limitations of Analysis

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- On May 6, 2024, the Honorable Amy Clark Meachum entered the *Amended Agreed Order Appointing Receiver* (“Receivership Order”) appointing Gregory S. Milligan (“Milligan”) as receiver over Pride of Austin High Yield Fund I, LLC (“POA”) to preserve and liquidate the property of POA. Milligan retained Harney Partners (“HP”) as financial advisers to assist him in executing upon his duties as receiver to maximize value for creditors and members of POA.
- The Forensic Report contained herein has been prepared based upon the information, documentation, and data available to Milligan and HP at this time, including direct access to POA’s accounting system, banking records from Frost Bank for periods after June 2017, emails produced by Robert Buchanan (“Buchanan”) as required under the Receivership Order and in response to production requests by Milligan, and other relevant publicly available information deemed reliable in the sole discretion of Milligan and HP. Buchanan provided the emails and other information in connection with his duties under the Receivership Order and Buchanan has represented to Milligan and HP that such materials are a complete conveyance of the information and documentation required by the Receivership Order. While reasonable efforts have been made to verify the accuracy and completeness of all information, no independent verification or audit has been conducted. Milligan and HP are not responsible, and assume no responsibility for any inaccuracies, omissions, or misrepresentations in the information, documentation, and data provided.
- This Draft Report does not constitute an audit, review, or assurance under generally accepted auditing standards, nor does it provide legal opinions or conclusions. This Draft Report does not constitute legal or financial advice. The findings, conclusions, and opinions expressed herein are based on the available evidence and professional judgment as of the date of this Forensic Report and are subject to change.
- **THIS FORENSIC REPORT IS CURRENTLY BEING PROVIDED TO THE PARTIES FOR INFORMATIONAL PURPOSES ONLY AS PART OF THE RECEIVER’S REGULAR STATUS REPORTS TO THE COURT.** MILLIGAN AND HP RESERVE THE RIGHT TO USE THE FORENSIC REPORT AND THE FINDINGS STATED THEREIN IN CONNECTION WITH REQUESTS FOR RELIEF IN THE RECEIVERSHIP CASE OR ANY ASSOCIATED CASES. MILLIGAN AND HARNEY PARTNERS FURTHER RESERVE THE RIGHT TO AMEND, SUPPLEMENT, EDIT, CORRECT FOR ANY REASON.

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# I. Executive Summary

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# Overview of Forensic Report



Two main questions to be answered:

- **When, if ever, did this become a Ponzi scheme and / or fraud?**

Ponzi scheme started from the very beginning of the Pride of Austin High Yield Fund I, LLC (the “Fund”) – distributions were declared and paid from purported profits that were not realized yet and so the distributed money could only have come from invested capital. Numerous badges of fraud have also been identified.

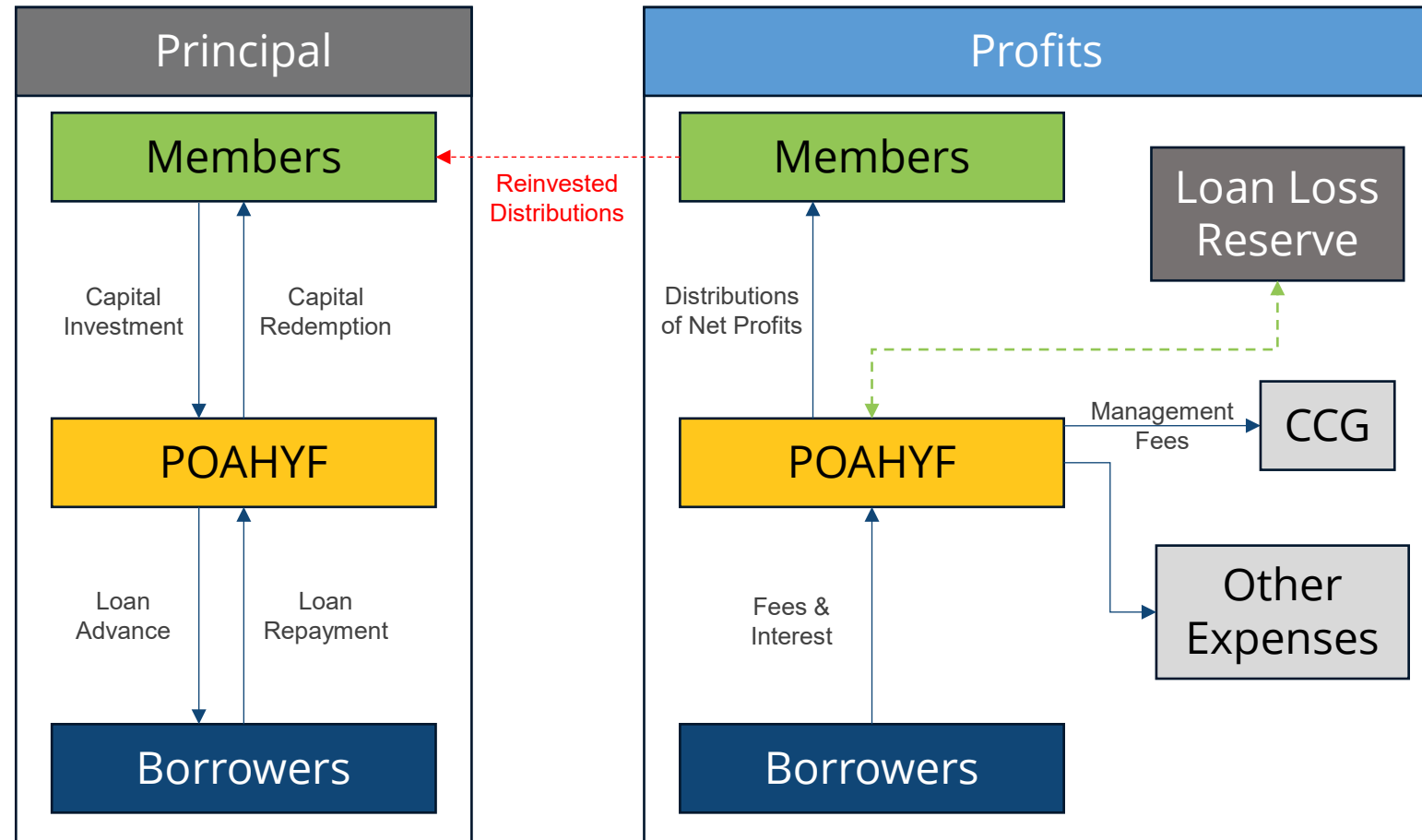
- **What happened to the Member’s invested capital?**

Majority of the funds were distributed back to Members disguised as profits. A material amount was misappropriated by Manager and transferred into his affiliate home builder entity.

# Illustrative Fund Cash Flows

## How Cash Flow Should Work:

- Fund raises capital from Members in order to make loans to Borrowers.
- Fund generates revenue from fees and interest paid by Borrowers on the principal outstanding.
- Fund distributes Net Profits to Members, which is the fees and interest collected from Borrowers net of Fund expenses, including management fees.
- As a lender, Fund's potential profit / return on investment is limited to interest and fees. Thus, the primary concern of a lender is typically avoiding loss of principal through diligent underwriting of creditworthiness of borrowers and underlying value of the collateral.





# Illustrative Fund Net Profits

PRIDE OF AUSTIN HIGH YIELD FUND I, LLC

\$100,000,000

PRIVATE PLACEMENT MEMORANDUM

## TERMS OF THE OFFERING

Each quarter, the Manager will distribute the LLC's accrued Net Profits, to the extent that there is cash available and provided that the quarterly distribution will not impact the continuing operations of the LLC as follows: 100% to the Members on a pro-rata basis.

"Net Profits" is defined as the LLC's quarterly gross income less the payments of the LLC's monthly operating expenses (such as the Manager's Fees, amounts due by the LLC on any loans or line of credit, audit costs, and LLC taxes) and an allocation of income for a loan loss reserve. All distributions will be made on a quarterly basis, in arrears.

An Investor may elect to (i) receive quarterly cash distributions from the LLC in the amount of that Member's share of Net Profits for distribution; or (ii) allow his, her, or its distributions to be reinvested and increasing his, her, or its ownership interest in the LLC; or (iii) some combination of (i) and (ii). Such election will become effective on the first (1st) day of the quarter following receipt of the election. If no election is made, then the quarterly distribution will be a cash distribution. An election to reinvest distributions is revocable with thirty (30) days notice to the LLC. Cash distributions reinvested by Investors who make such an election will be used by the LLC to make further mortgage loans or for other proper LLC purposes. Reinvestment distributions will only be allowed if this Offering is still active.

By the end of the LLC's fiscal year and after completion of its annual audit, the Manager will make every effort to have distributed to each Member the amount of Net Profits that will be allocated to that Member on the Schedule K-1 that he, she, or it receives for income tax reporting. However, the amount of income reported to each Member on his, her, or its Schedule K-1 may differ somewhat from the actual cash distributions made during the fiscal year covered by the Schedule K-1 due to, among other things, the loan loss reserve and factors unique to the tax accounting of LLCs, such as the treatment of investment expense.

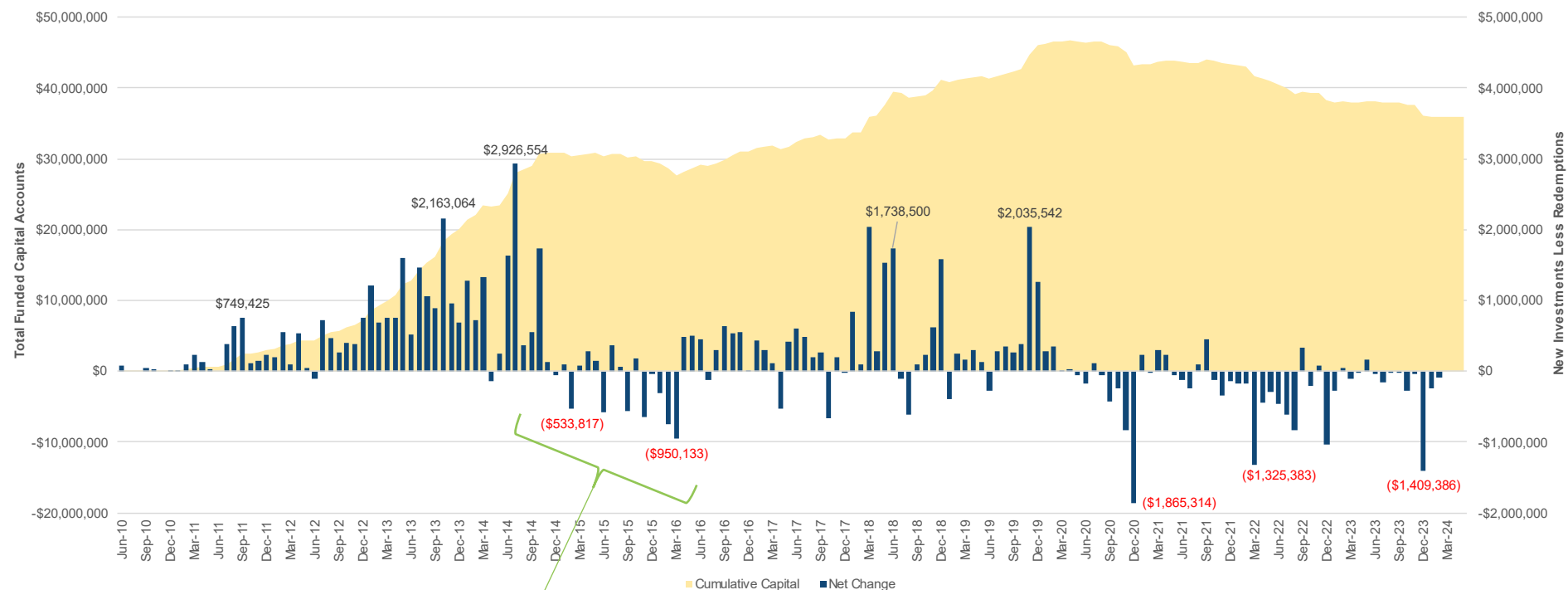
## How Net Profits Should Work:

	Fiscal Quarter
<b>REVENUE</b>	
Fees	\$ 60,000
Interest Income	60,000
Other	
<b>EXPENSES</b>	
Management Fees	(20,000)
Legal & Professional Fees	(5,000)
REO Expenses	
<b>GROSS PROFIT</b>	<b>\$ 95,000</b>
Allocation for Loan Loss Reserve	(45,000)
<b>NET PROFITS</b>	<b>\$ 50,000</b>

- Distributions are contingent on availability of cash
- Definition of Net Profits explicitly references an allocation of income for a loan loss reserve.

# Member Investments

- After receiving its first investment in June 2010, the Fund grew to over \$30 million of invested capital by late 2014.
- Timing of the wave of redemptions in 2015 and early 2016 likely due to two-year lock-up period after initial investment
- Starting in early 2020, redemptions outpaced new capital investments.

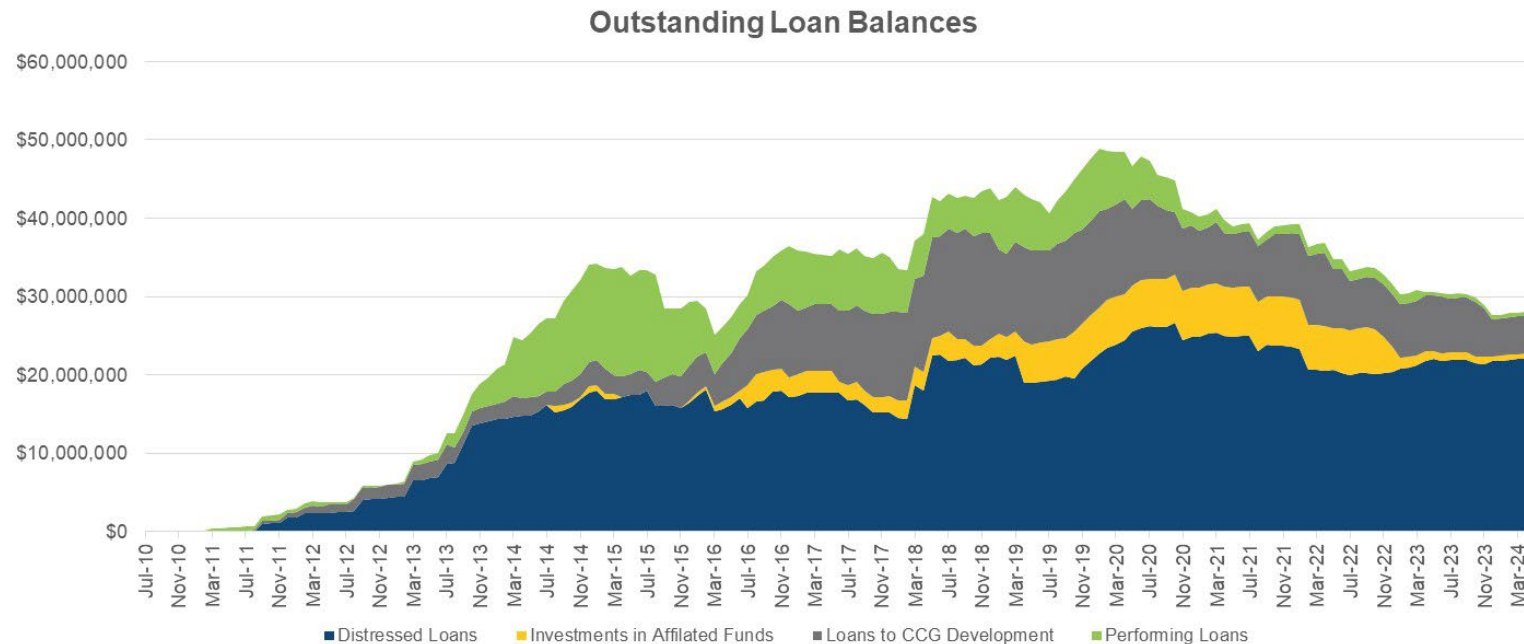




# Assets

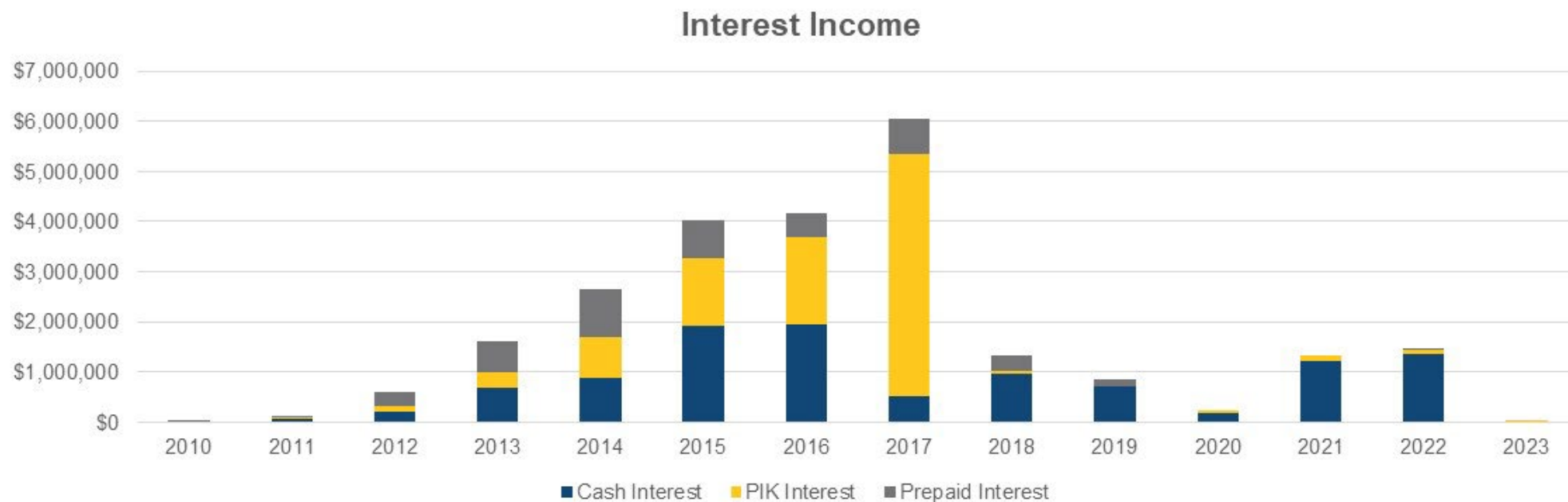
## Fund's loan portfolio had numerous foreclosures and bankruptcies

- In the adjacent loan schedule from December 31, 2012, the four largest loans outstanding (highlighted in red), accounting for ~77% of the portfolio, were ultimately foreclosed upon or the borrower filed for bankruptcy protection.
- Total loans outstanding decrease starting in 2020, driven by the use of loan payoffs to pay distributions to members.
- Receiver continues to work diligently to maximize the recovery from the remaining assets. However, the ultimate recovery will likely be significantly lower than the book value of the assets of approximately \$28 million as of April 2024.



# Revenue Recognition

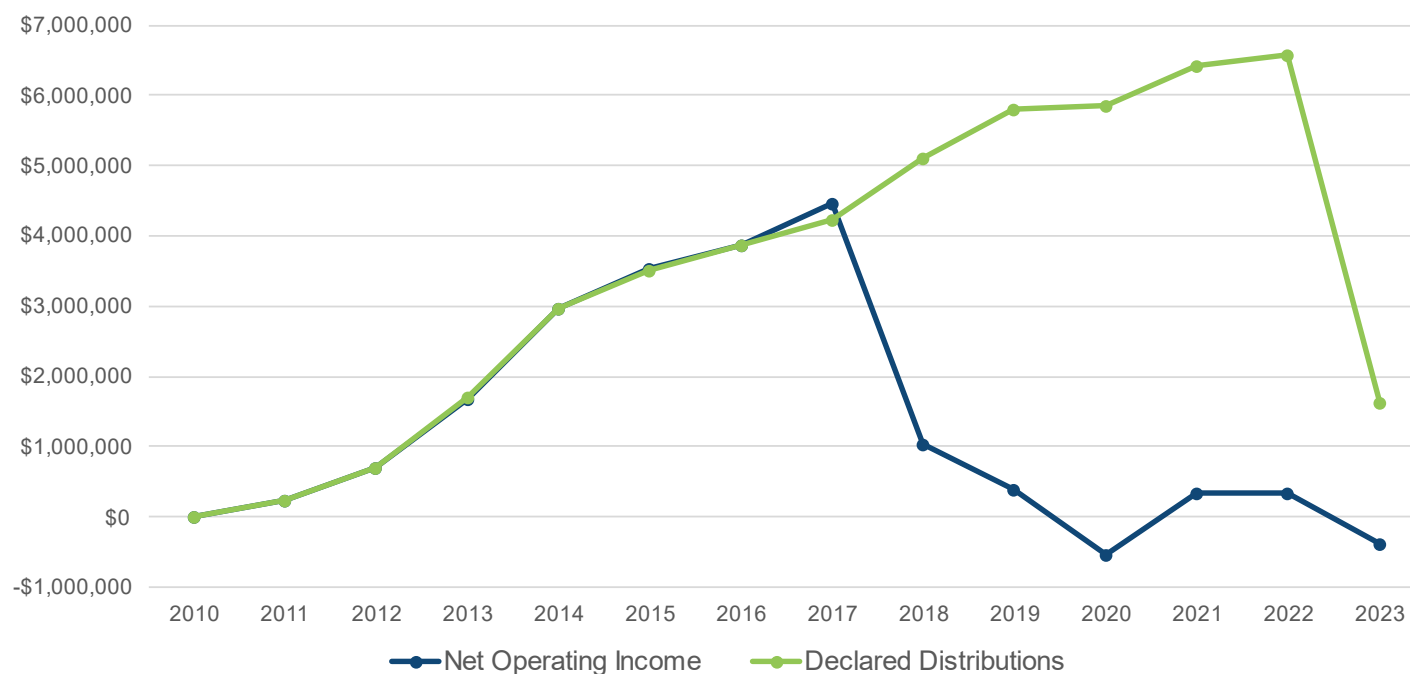
- Fund accepted PIK interest from Insider loans, which increased cash distributions paid to Members without the Fund receiving the associated cash from the Borrowers.
- Fraudulent entries in 2015, 2016, and 2017 increased revenue and cash distributions



# Distributions vs Net Profits

**Net Operating Income (i.e. Profits) is an accounting concept and not indicative of the cash flow received and available to distribute to Members.**

- Fund issued distributions to Members at levels unsupported by operating results.
- As a result, the cash used to pay distribution could only have come from Member's capital investments.
- Problem started early on as distress in the loan portfolio was not appropriately accounted for or reserved for from a cash perspective.
- When adjusted for non-cash items, declared distributions exceeded net operating income in the years before 2017.

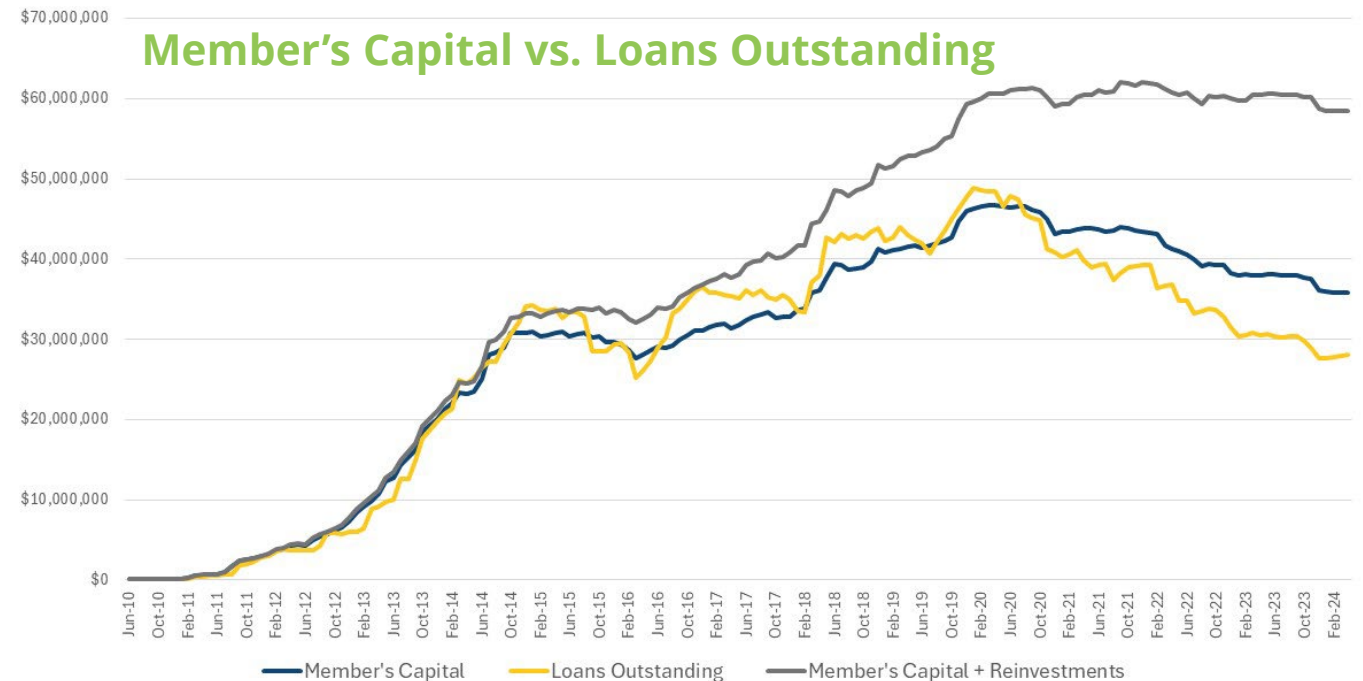


# Distribution of Income was Return of Capital

- By declaring and paying distributions far more than actual profits, the capital account of the Fund exceeded its asset base.
- Approximately 50% of the distributions to Members were reinvested, which further exacerbated the divergence between the total capital basis and the asset base but reduced the cash needed by the Fund to make the distributions. This helps the Fund stay afloat and delayed when the collapse of the scheme.

## Distributions of Income

To the extent cash distributions exceed the current and accumulated earnings and profits of the LLC, they will constitute a return of capital, and each Member will be required to reduce the tax basis of his, her, or its Membership Interests by the amount of such distributions and to use such adjusted basis in computing gain or loss, if any, realized upon the sale of Membership Interests. Such distributions will not be taxable to Members as ordinary income or capital gain until there is no remaining tax basis, and, thereafter, will be taxable as gain from the sale or exchange of the Membership Interests.





## II. Ponzi Scheme Red Flags

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# What is a Ponzi Scheme?

- According to the Securities and Exchange Commission, a Ponzi scheme is an investment fraud that involves the *payment of purported returns to existing investors from funds contributed by new investors*.
- Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk.
- *With little or no legitimate earnings*, Ponzi schemes require a constant flow of money from new investors to continue.
- *Ponzi schemes inevitably collapse*, most often when it becomes difficult to recruit new investors or when a large number of investors ask for their funds to be returned.

## Common Red Flags

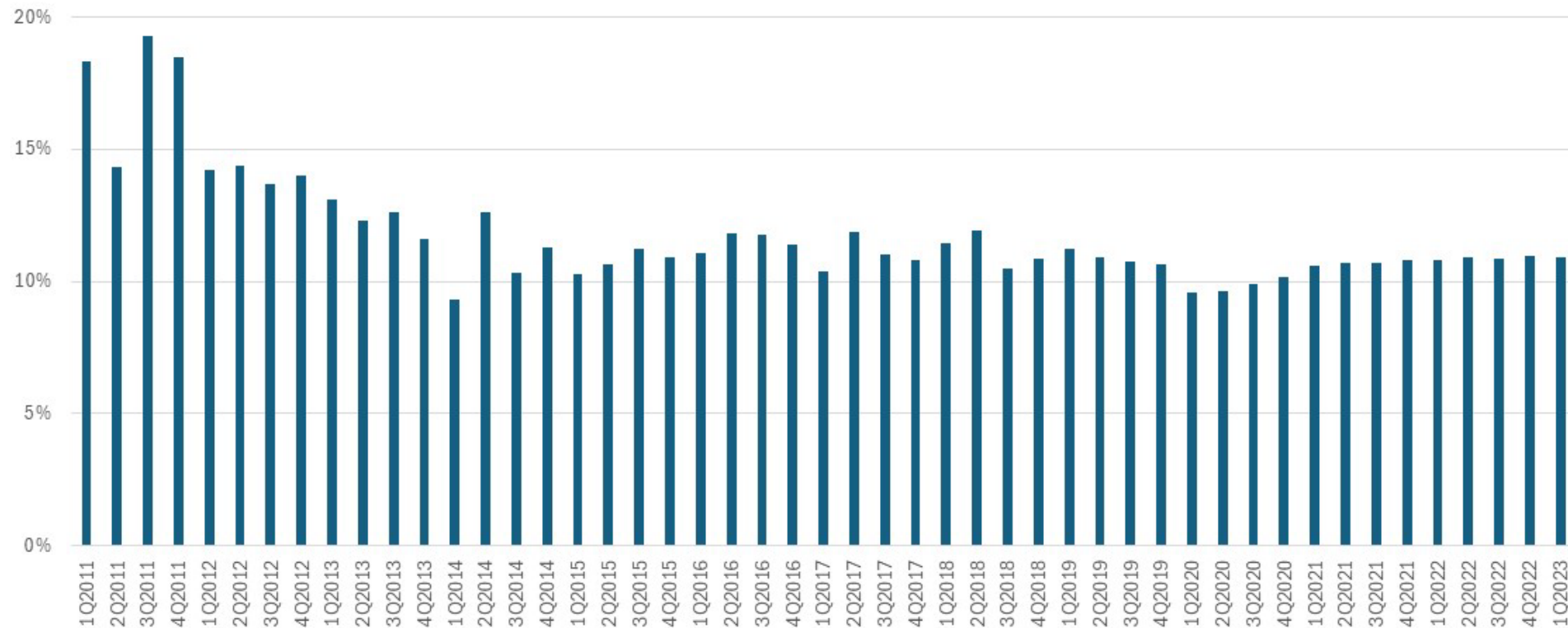
- ✓ High returns with little or no risk
- ✓ Overly consistent returns
- ✓ Unregistered investments
- ✓ Unlicensed sellers
- ✓ Secretive, complex strategies
- ✓ Issues with paperwork
- ✓ Difficulty Receiving Payments
- ✓ Pressure to Recruit

# RED FLAGS: High Returns with Little or No Risk

- *Every investment carries some degree of risk, and investments yielding higher returns typically involve more risk. Be highly suspicious of any “guaranteed” investment opportunity.*
- Fund was a hard money lender – offering short term loans, collateralized by real property with high interest rates and fees.
- Borrowers who utilize hard money lenders often have exhausted more traditional, lower cost sources of capital, like regulated banks and credit unions.
- As a result, the Fund’s borrowers are higher risk – meaning more defaults, foreclosures, non-performing loans are likely to occur.
- Despite its claims about its discipline regarding its rigorous loan parameters, Fund was not immune from the pitfalls of high-risk borrowers and experienced foreclosures and chapter 11 bankruptcies related to early loans made by the Fund.
- However, these foreclosures and bankruptcies hardly impacted the distributions paid to investors.

# RED FLAGS: Overly Consistent Returns

- Investments tend to go up and down over time. Be skeptical about an investment that regularly generates positive returns regardless of overall market conditions.*



# RED FLAGS: Unregistered & Unlicensed

- *Ponzi schemes typically involve investments that are not registered with the SEC or state regulators. Registration is important because it provides investors with access to information about the company's management, products, services, and finances.*
- *Federal and state securities laws require investment professionals and firms to be licensed or registered. Most Ponzi schemes involve unlicensed individuals or unregistered firms.*

## POA High Yield Fund 1 - Legal

**Regulation D Security**  
**Filed in all 50 States**  
**Organized as an LLC in Texas**  
**Investors are Members**  
**100% Owned by Investors**



- Starting in January 2010, the Fund filed Form D pursuant to Rule 506 of Regulation D of The Securities Act of 1933, which is a claimed exemption to the registration of the securities.
- Fund filed amendments to Form D and state blue sky filings each year until 2016.
- In June 2016, Fund received legal advice that it had serious regulatory compliance deficiencies and was likely not exempt from registering as an Investment Company or being a license Investment Adviser.
- Recommendation was to wind down the Fund and start a new one with a more rigorous compliance approach.

# RED FLAGS: Secretive, complex strategies

- *Avoid investments if you don't understand them or can't get complete information about them.*
- Fund strategy is relatively straightforward
- Reporting was extremely limited:
  - Summary Financials, if provided at all
  - Dodged investor request for audit of Fund

PRIDE OF AUSTIN HIGH YIELD FUND I, LLC    \$100,000,000    PRIVATE PLACEMENT MEMORANDUM

By the end of the LLC's fiscal year and after completion of its annual audit, the Manager will make every effort to have distributed to each Member the amount of Net Profits that will be allocated to that Member on the Schedule K-1 that he, she, or it receives for income tax reporting. However, the amount of income reported to each Member on his, her, or its Schedule K-1 may differ somewhat from the actual cash distributions made during the fiscal year covered by the Schedule K-1 due to, among other things, the loan loss reserve and factors unique to the tax accounting of LLCs, such as the treatment of investment expense.

## Financials Provided to Investor in June 2016

### Pride of Austin High Yield Fund I, LLC Balance Sheet As of December 31, 2015

	Dec 31, 15
<b>ASSETS</b>	
Current Assets	34,083,915.08
<b>TOTAL ASSETS</b>	<b>34,083,915.08</b>
<b>LIABILITIES &amp; EQUITY</b>	
Liabilities	397,463.99
Equity	33,686,451.09
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>34,083,915.08</b>

### Pride of Austin High Yield Fund I, LLC Profit & Loss January through December 2015

	Jan - Dec 15
<b>Ordinary Income/Expense</b>	
Income	4,420,538.02
Expense	894,757.22
<b>Net Ordinary Income</b>	<b>3,525,780.80</b>
<b>Other Income/Expense</b>	
Other Expense	
80000 · Quarterly Reinvestments	0.00
<b>Total Other Expense</b>	<b>0.00</b>
<b>Net Other Income</b>	<b>0.00</b>
<b>Net Income</b>	<b>3,525,780.80</b>



# RED FLAGS: Secretive, complex strategies (Cont.)

- Threat of returning investment if not satisfied with reporting and information disclosure by the Fund:

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**From:** Robert J Buchanan [<mailto:rjb@prideofaustin.com>]

**Sent:** Wednesday, January 16, 2013 12:17 PM

**To:** [REDACTED]

**Cc:** David Owen

**Subject:** RE: Pride of Austin investment

I have attached our loan schedule (as of December 31, 2012). I hope this will put your mind at ease. We don't spend time making flashy reports and such. What we do spend our time on is marketing and branding our company for two reasons. To attract borrowers and investors. This is why you see happy hours, webinars and seminars.

If this doesn't help put your mind at ease then the next step is for us to issue you a check for \$25,000 and terminate your subscription agreement. Please don't take this the wrong way but we have much bigger investors in our fund that are just fine with the amount of reporting that we do. If this is not enough for you then I suggest we end our relationship now as we don't have the manpower to hold your hand at all times.

Please advise us as what you would like to do.

# RED FLAGS: Issues with paperwork



- *Account statement errors may be a sign that funds are not being invested as promised.*

## **Books & Records Lawsuits**

- At least 36 lawsuits were filed in Travis County against the Fund. In most cases, CCG and Buchanan were also named as defendants, and occasionally additional parties as well.
- Virtually all the lawsuits included a request for books and records pursuant to the Texas Business Organizations Code and the POA company agreement, along with demands for full redemption of the investment. Mr. Buchanan and CCG routinely ignored such lawsuits for months, resulting in seven default judgments and numerous contempt findings.

# RED FLAGS: Difficulty Receiving Payments

- *Be suspicious if you don't receive a payment or have difficulty cashing out. Ponzi scheme promoters sometimes try to prevent participants from cashing out by offering even higher returns for staying put.*

Any ETA on my withdrawal request?

I am working on the return of your capital as you requested. I can do half of the amount today and the other half in the next two weeks once a partial loan payoff is received. I know this is a little different than we initially discussed but I hope you can live with this arrangement.

April 18, 2022

Robert.

This is the fourth time I am writing to you requesting to closeout my two Pride of Austin accounts. You have not replied to my three earlier emails. It is imperative that I receive the funds that I have invested and grown over the past 9 years. Attached to this letter is a proposal requesting distribution of all funds over a 5-year timeframe.

RE: "We just received the loan paydown as mentioned below. Tomorrow you will receive an email with the following capital reductions for both your accounts:"

Yes, we did talk finally. It was good to hear from you that there are no problems with the fund.

We expect two partial loan payoffs by mid-March. These two payoffs will allow the Fund to return a 100% of your investment amount. I will keep you up to date if there are any expected delays or perhaps a quicker return of your investment.

# RED FLAGS: Recruiting & Soliciting New Investors

- If there is significant emphasis on attracting new investors and incentives are offered for doing so, it could be a sign of a Ponzi scheme. This is a means to continue the inflow of new capital to keep the scheme going.*

## Incentive Programs & Bonuses

The F1 Contest ends at the end of September. So far the top three place leaders are:

25 points –   
22 points –   
21 points – 

1<sup>st</sup> place are 2 tickets to F1 Finals race day on Sunday Nov 17 as guests of Robert and his lovely wife Drew

2<sup>nd</sup> place are 2 tickets to F1 Preliminaries on Saturday Nov 16 as my guests

You earn 1 point for each new investor you introduce to POA who makes an investment; 1 point for each multiple of \$25,000 that a new investor invests; and 1 point for each multiple of \$25,000 that an existing investor increases his, her or its investment.

## Solicitations for Referrals / Introductions

*Excerpt from Investor Letters:*

As a reminder we are actively pursuing funds for both POAHY and POAOF. Let me know if you would like to increase your investment account or know someone who is interested in the possibility of becoming an investor.

Pride of Austin High Yield Fund is open to more investments through the end of the year. We have a healthy deal flow of loans coming into underwrite and to fund.



## III. Ponzi Scheme Elements

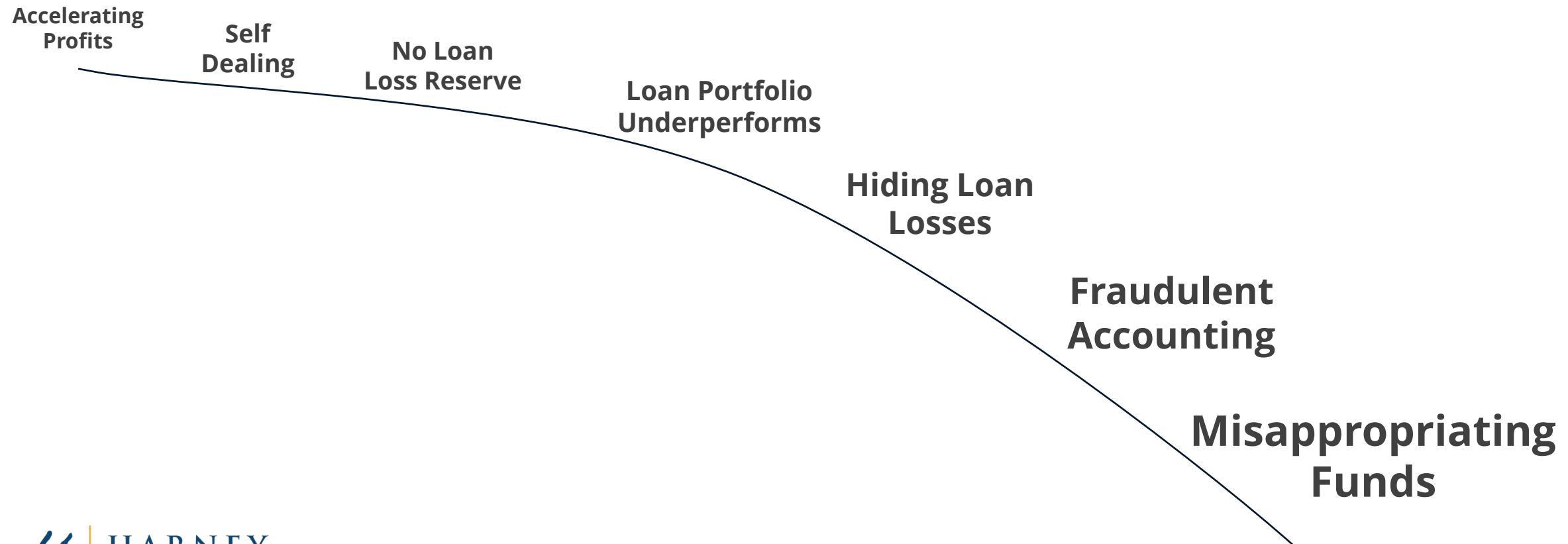
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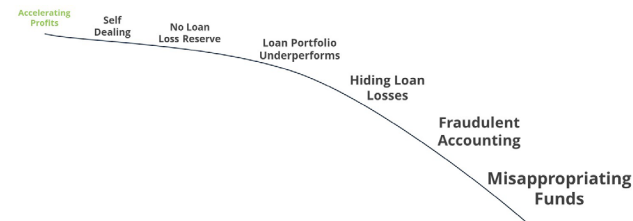


# Ponzi Scheme Slippery Slope

Ponzi schemes rarely begin as a master plan to defraud investors – small, unethical decisions or errors snowball into a massive, unsustainable fraud.



# Accelerating Profits

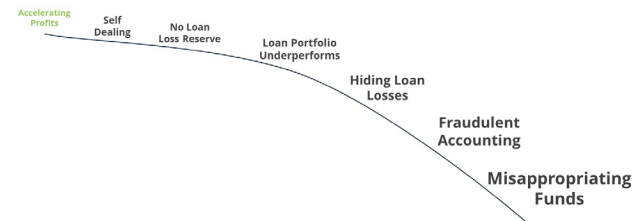


## Payment of purported returns to existing investors from funds contributed by new investors

- The below snapshot shows the *first few transactions* of the Fund and illustrates how the fund, ***from the very beginning***, paid investors purported profits from invested capital, not from actual earnings.
- Before the Fund could close on its first loan to a borrower, the Fund issued 8% interest payments to its first two investors. The Fund was earning bank interest on the \$75,000 of cash, totaling \$131.11 from June to August 2010.



# Accelerating Profits



## Illustrative cash flows of \$100,000 loan at 12% annual interest:

- Accounting profit reflects **paper profits** while cash flow reflects **realized returns**—actual money in hand.

### Borrower pays cash interest each month:

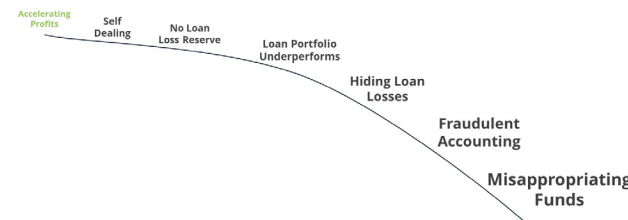
	Closing	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Principal Balance	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$0	
Cash Flows	(100,000)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	101,000	12,000
Revenue		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Distributions to Members				(3,000)			(3,000)			(3,000)			(3,000)	(12,000)
Cumulative Net Cash Flow	(100,000)	(99,000)	(98,000)	(100,000)	(99,000)	(98,000)	(100,000)	(99,000)	(98,000)	(100,000)	(99,000)	(98,000)	-	-

### Borrower is allowed to pay interest in kind each month, increasing the outstanding loan balance:

	Closing	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Principal Balance	\$100,000	\$101,000	\$102,000	\$103,000	\$104,000	\$105,000	\$106,000	\$107,000	\$108,000	\$109,000	\$110,000	\$111,000	\$0	
Cash Flows	(100,000)												112,000	12,000
Revenue	-	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Distributions to Members				(3,000)			(3,000)			(3,000)			(3,000)	(12,000)
Cumulative Net Cash Flow	(100,000)	(100,000)	(100,000)	(103,000)	(103,000)	(103,000)	(106,000)	(106,000)	(106,000)	(109,000)	(109,000)	(109,000)	-	-

Where does the cash come from to pay these distributions?

# Accelerating Profits



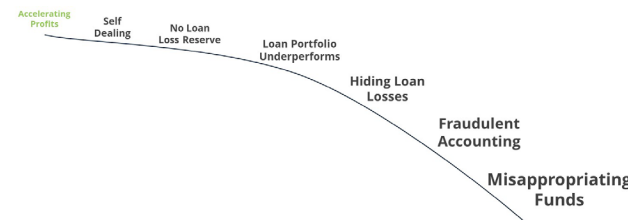
Actual examples from the Fund's loan activity:

## EXAMPLE: William & Allyson Bruner - Dogwood Terrace

	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	TOTAL
Loan Balance	\$23,355	\$33,752	\$34,140	\$34,546	\$34,944	\$35,359	\$35,780	\$36,192	\$36,622	\$37,043	\$37,484	\$37,484	\$39,103	\$0	
Cash Flow	(\$22,048)	(\$10,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$39,523	\$7,475
PIK Interest & Fees	\$1,307	\$397	\$388	\$406	\$398	\$416	\$420	\$412	\$430	\$421	\$440	\$0	\$1,620	\$420	\$7,475
"Net Profits" Distributed		(\$1,704)			(\$1,192)			(\$1,248)			(\$1,292)			(\$2,040)	(\$7,475)

- Loan funded in February 2012, repaid in full in March 2013 – netting profit of \$7,475
- While the loan was outstanding, the interest and fees were added to the loan balance rather than being paid in cash by the borrower.
- As a result, the Fund recognized \$5,435 of revenue in 2012 while not receiving any cash from the borrower. This revenue was incorporated into the Net Profits calculation and distributed out to Members in each quarter of 2013 without contributing any cash.
- Cash flow ultimately caught up with accounting profits when loan was repaid in March 2013 – but not before purported profits were paid from funds from Members' invested capital.

# Accelerating Profits



Actual examples from the Fund's loan activity:

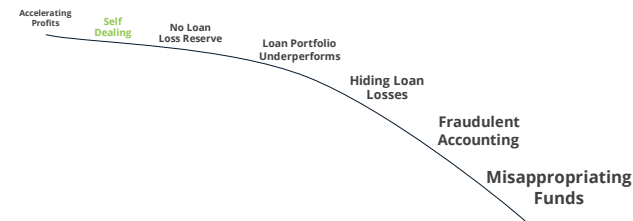
## EXAMPLE: Fulshear Property One, LLC & Fulshear Property Two, LLC

	2011	2012	2013	2014	TOTAL
Loan Balance	\$780,249	\$1,450,641	\$3,022,910	\$3,303,985	\$3,303,985
Cash Receipts	\$130,592	\$150,000	\$172,165	\$0	\$452,758
Cash Disbursements	(\$592,726)	(\$670,542)	(\$1,560,669)	(\$240,968)	(\$3,064,905)
Interest & Fees	(\$131,150)	(\$181,088)	(\$429,974)	(\$52,464)	(\$794,676)
"Net Profits" Distributed	(\$131,150)	(\$181,088)	(\$429,974)	(\$52,464)	(\$794,676)

- Two related loans initially funded in September 2011 and December 2011, respectively.
- Loans were foreclosed upon in February 2014. Property is still owned.
- Borrower paid the Fund the Lender Points at each initial closing in 2011 but prepaid interest was net funded at closing.
- Borrower replenished prepaid interest in 2012 and paid modification / extension fees in 2013.
- Prior to the foreclosure, Fund distributed ~\$795K of accounting profits while only receiving ~\$453K of cash from the Borrower.
- Because the Fund still owns these properties, there was never a catch-up of the cash flow with the accounting profits.



# Self Dealing



Self-dealing started almost immediately with loans to benefit Buchanan and Owen:

## Owen

- Owen was facing financial ruin and contemplating bankruptcy when the Fund provided two loans:
  - ❑ 611 Bissonet: Fund paid \$14,000 in April 2011 to a bankruptcy attorney; Owen paid \$500 monthly but other advances and balance transfers increased the loan balance to over \$350K in 2015.
  - ❑ 525 Live Oak: Loaned \$15K in Oct 2010 and \$17K in Feb 2011 before purchasing existing mortgage in 2012. When sale proceeds were less than the loan balance, residual balance was transferred to other insider loans.

So my request is that I borrow \$15K at 14% and save the car. Do not give me that there is no real estate involved in that POAH has borrowed money unsecured from the fund. As long as interest payments are made and the principle is reduced as can be then there is no reason not to do that. Interest on \$15K is \$175 a month as opposed to the \$925 a month Acura payments. If I cannot pay back \$15K over a year then we are in a whole lot of trouble in all of the businesses. If you say no then I'll go back to the bankruptcy attorney. I am not losing the Acura.

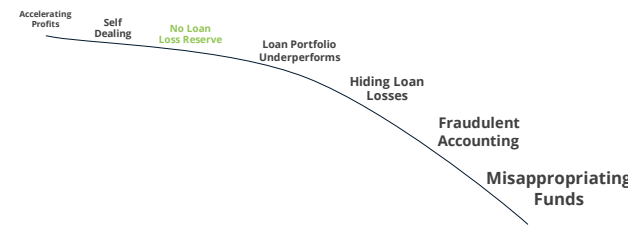
## Buchanan

- Fund financed ~\$82K for the acquisition of the 105 Pine Barrens lot in Feb 2012
- Buchanan built his personal residence with a \$400K construction loan from Independent Bank and over \$380K from the Fund
- Construction loan from Independent Bank was converted to mortgage with deed of trust in favor of Independent Bank filed in January 2014.
- No repayments were ever made to the Fund; balance of over \$463K was transferred via accounting entries to two other loans of the Fund

# No Loan Loss Reserve



- As noted in the PPM, the Fund was engaged in lending to high risk borrowers who would not qualify for loans from institutional lenders. This type of lending balances this higher risk with a higher return.
- Higher risk typically translates into higher defaults and higher losses.
- No loan loss reserve was ever set up to buffer the Fund from potential losses from bad loans. This is an elemental aspect of lending and required by regulators throughout the banking industry.



PRIDE OF AUSTIN HIGH YIELD FUND I, LLC

\$100,000,000

PRIVATE PLACEMENT MEMORANDUM

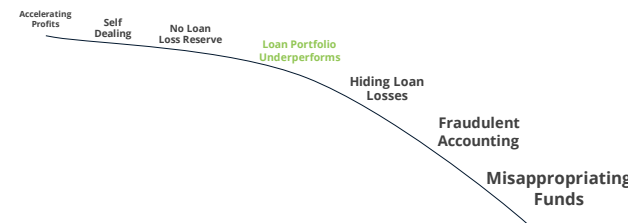
## BUSINESS RISKS

### *Loan Defaults and Foreclosures*

Since the LLC will be relying on its real property security to protect its investment to a greater extent than the creditworthiness of its borrowers, the LLC is likely to experience a borrower default rate higher than would be experienced if its loan portfolio was more heavily focused on borrower creditworthiness. Because of the LLC's underwriting criteria, the LLC may make loans to borrowers who would not qualify for secured loans from institutional lenders (i.e., banks and savings and loan associations).



HARNEY  
PARTNERS



# Loan Portfolio Underperforms

- The red highlights below show the biggest borrowers defaulted early

## Loan Schedule as of December 31, 2012

Address	Loan Type	Amount	Close Date	Maturity
South Austin White House	Land Development	\$ 2,540,000.00	9/26/12	9/1/13
Midtown--7400 Cameron Rd / Austin, TX	Retail Center Rehab	\$ 1,236,956.52	9/12/11	4/1/13
Cattell Inc--960 Greenbriar / Vidor, TX	SFR Rehab	\$ 76,500.00	8/1/12	4/1/13
POAH--525 Live Oak / Austin Tx	SFR New Construction	\$ 650,000.00	12/31/12	12/31/13
FP1--8045 FM 359 / Fulshear, TX	Medical Office New Construction	\$ 1,725,000.00	9/27/11	4/1/13
FP2--8043 FM 359 / Fulshear, TX	Medical Office New Construction	\$ 1,725,000.00	12/20/11	7/1/13
Bruner -- 73 Dogwood Terrace / Ellerslie, GA	SFR Rehab	\$ 35,000.00	2/1/12	1/31/13
POAH--5503 Clay Ave / Austin Tx	Lot Subdivision	\$ 775,000.00	12/31/12	12/31/13
MDG--1008 Jewell / Austin Tx	SFR New Construction	\$ 625,000.00	8/14/12	9/1/13
<b>Total</b>		<b>\$ 9,388,456.52</b>		

# Hiding Losses Through Balance Transfers

- Rather than recognize losses from loans to Insiders, which would negatively impact profits, residual balances were transferred to other Insider loans or to loans in foreclosure.

## Excerpt of Email to Tax CPA

Attached is the following on Live Oak:

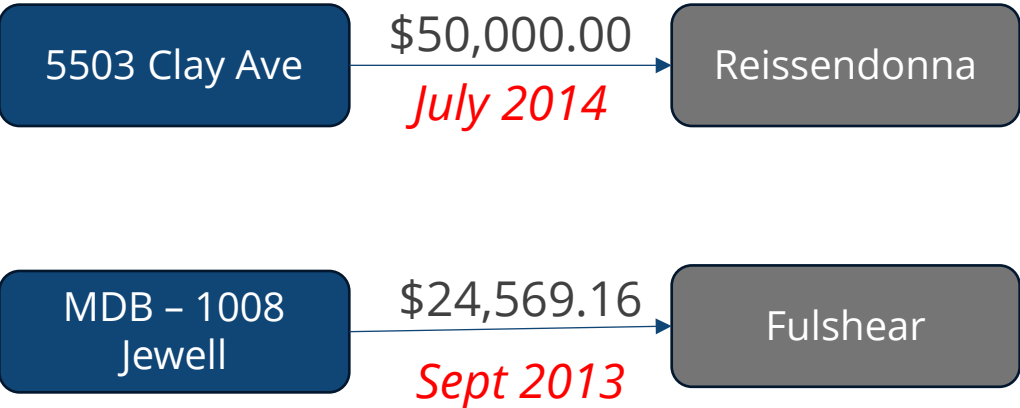
1. Settlement Statement – The \$20k from seller is from David for a personal matter.
2. Live Oak Loan History from POAHYF – Shows loan paid in full with the following:
  - A. Proceeds from Sale - \$656,869.96
  - B. David - \$34,572.00
  - C. David personal matter - \$25,149.80
  - D. Rob - \$34,572.00



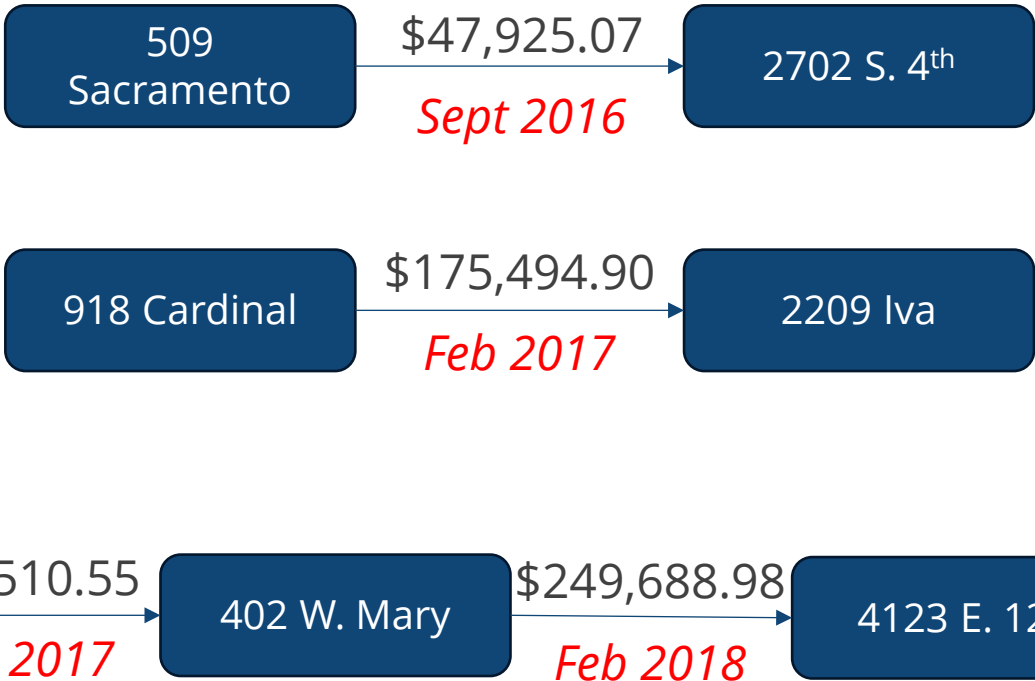
# Hiding Losses Through Balance Transfers

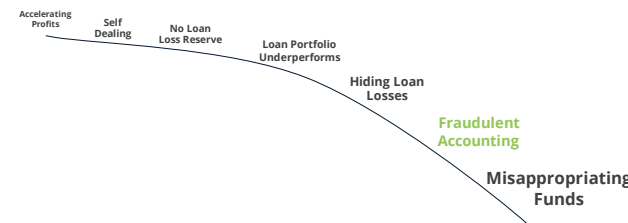
- Rather than recognize losses from loans to himself, Owen, or CCG Development, Buchanan would transfer remaining balances to other to CCG Development or to loans in foreclosure

## Transfers to Loans in Foreclosure



## Transfers to Other Insider Loans





# Fraudulent Accounting

The below three accounting entries recognized over \$6.0 million of revenue (and thus profits) associated with the below two loans. No evidence was found to support such revenue

## The Falls - Roseville

- The Falls – Roseville & Cedar Park
- Notice of Default sent on July 8, 2016
- Filed for Chapter 11 on July 11, 2018
- Loan, with balance over \$4.7 million including unpaid accrued interest, sold in April 2019 for \$3.7 million

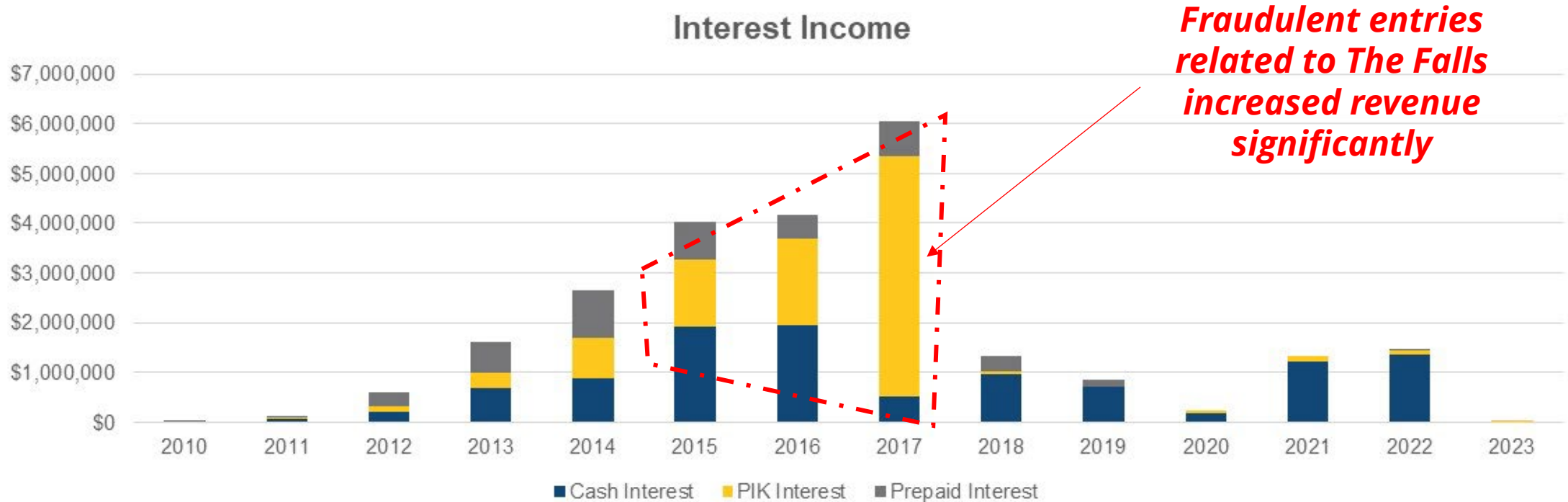
## The Falls – Cedar Park

- Funded in March 2016, repaid in July 2016

Pride of Austin High Yield Fund I, LLC								
Transactions by Account								
As of December 31, 2018								
Trans #	Type	Date	Num	Name	Memo	Split	Debit	
Accrued Income								
5670	General Journal	12/31/2015	716	The Falls - Roseville	The Falls (Roseville and Cedar Park)	-SPLIT-	523,766.82	
7754	General Journal	12/31/2016	716	The Falls - Roseville	The Falls (Roseville and Cedar Park)	-SPLIT-	1,049,578.51	
7807	General Journal	12/31/2017	716	The Falls - Roseville	The Falls (Roseville and Cedar Park)	40000 - Loan Interest	4,497,056.48	
Total Accrued Income							6,070,401.81	

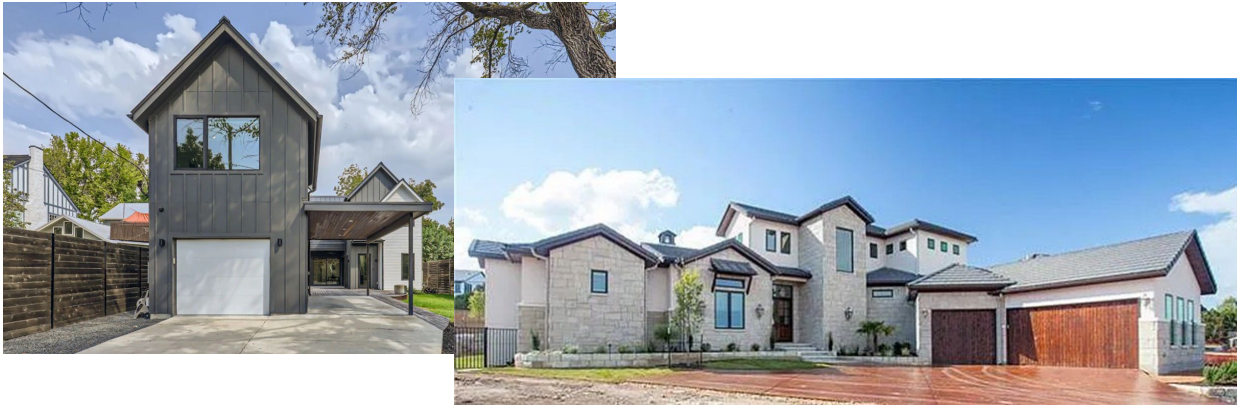


# Fraudulent Accounting



# Misappropriating Funds

## 1610 Hether & 105 Pine Barrens



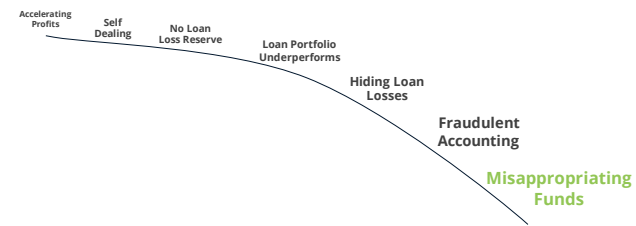
- CCGD borrowed over \$1.7 million from the Fund to build personal residences for Buchanan from 2012-2014 and 2018-2020.
- **105 Pine Barrens:** Transferred \$463K balance (which included some accrued PIK interest) to two foreclosed loans in July 2015 to remove this loan from the Fund's balance sheet
- **1610 Hether:** Borrowed over \$1.2 million between April 2018 and May 2020 to complete construction. Receiver evicted Buchanan from the residence in 2024 and sold the property, paying years of unpaid property taxes at closing.

## 1307 Justin: Paying off Junior Liens

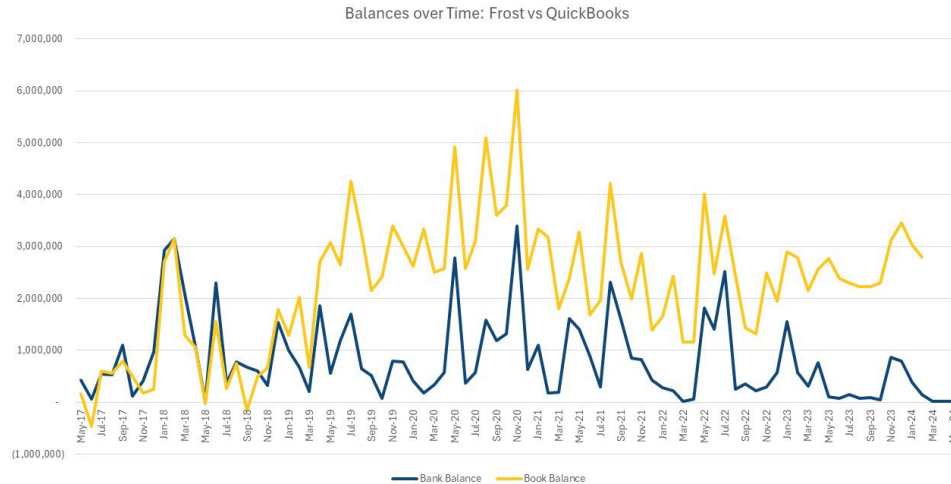
N. Due from Seller at Closing	\$842,281.72
01 Excess Deposit	
02 Closing Costs Paid at Closing (J)	\$85,772.79
03 Existing Loan(s) Assumed or Taken Subject to	
04 Payoff of First Mortgage Loan to Pride of Austin H..	\$127,902.44
05 Payoff of Second Mortgage Loan to US Treasury	\$22,601.06
06 Payoff to US Treasury	\$52,813.70
07 Payoff to US Treasury	\$42,415.06
Ad See Addendum for Additional Mortgage Payoffs	\$507,211.67
08 Seller Credit	

- Loan to CCGD originally funded in March 2021, increasing to \$1,250,000 by September 2023
- Closing statement for sale of Unit A reflects a payoff amount to the Fund of ~\$128K and more than \$600K paid to the US Treasury for tax liens filed against the CCGD.
- As a result, Fund never collected approx. \$370K from CCGD for this loan.
- Tax liens were junior to the Fund's first lien mortgage and should not have been paid until the Fund was repaid in full.
- 525 E. Live Oak also had this issue.

# Misappropriating Funds



## \$3.0M of Unbooked Transfers to CCG



- From November 2018 to September 2022, there were 55 transfers to CCGD, totaling over \$3.1 million, that were not booked in the accounting system.

## 2209 Iva Lane

CALCULATION	
Total Due to Seller at Closing (M)	\$585,000.00
Total Due from Seller at Closing (N)	-\$44,798.37
Cash to Close <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$540,201.63

2. No loans or liens (including Federal or State Liens and Judgment Liens) taxes, or assessments of any kind on such property except the following: (

Creditor

None

- Between August 2015 and December 2016, CCGD borrowed approximately \$962K for acquisition and development of 2209 Iva Lane.
- \$105K of PIK Interest was recognized (but not collected) and \$175K was transferred from the balance of another loan to CCGD.
- Closing statements for the sales of the redeveloped lot reflect no loans or liens.
- Over \$1.2 million were never paid to the Fund on behalf of the loan, instead diverted to CCGD or Buchanan.



HARNEY  
PARTNERS



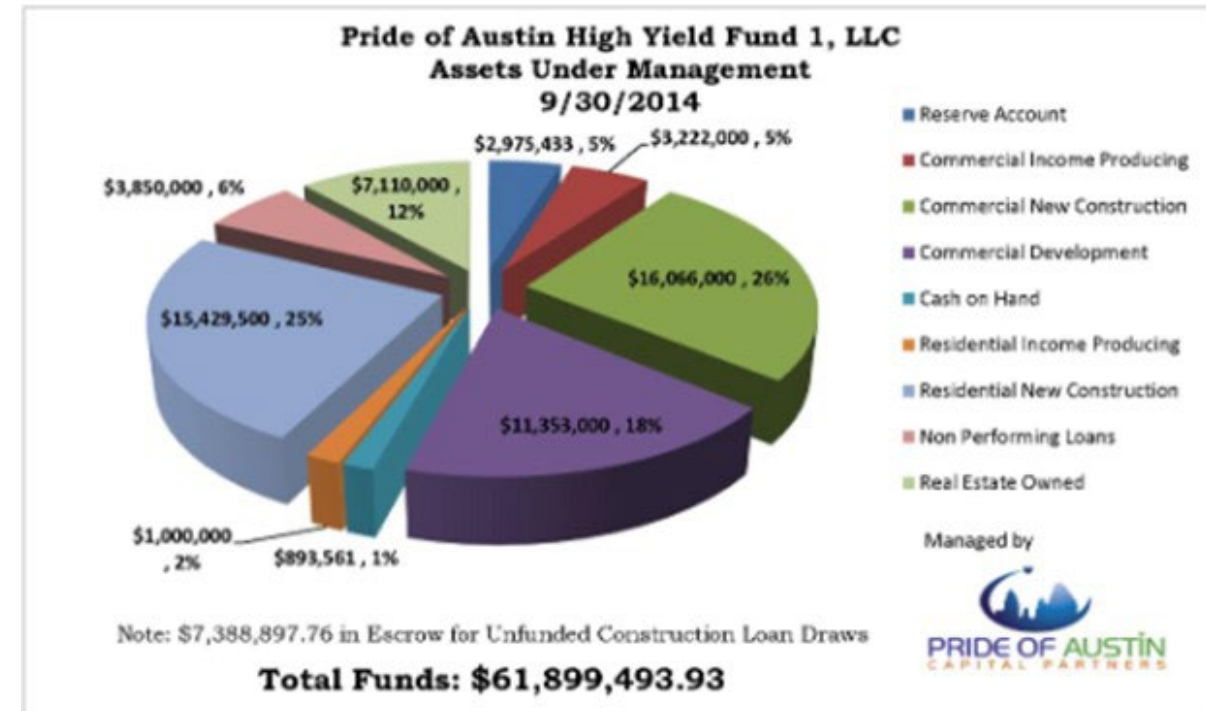
## III. Other Badges of Fraud

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# Misleading Information

- Of the limited information reported to current and prospective Members, the adjacent pie chart misrepresents the commonly used industry metric: **Assets Under Management**
- The industry definition of Assets Under Management is the market value of the assets an investment fund manages on behalf of its investors.
- The metric reported by the Fund was the aggregate appraised value of the collateral underlying its outstanding loans.
- Higher Assets Under Management metrics broadcast investor confidence and trust, scale of operations, and success in its investment strategy.
- Furthermore, no evidence was found to validate the amounts or existence of (a) the Reserve Account and (b) the Escrow for Unfunded Construction Loan Draws





# Two Sets of Books

- Two loan schedules were maintained: one that was circulated to investors, one for only circulated internally.
- The loan schedule shared with investors omitted the (unsecured) loans to insiders previously discussed.

## Message

**From:** Robert J Buchanan [rjb@prideofaustin.com]  
**Sent:** 3/1/2012 9:48:26 AM  
**To:** Owen, David (dfo@prideofaustin.com) [dfo@prideofaustin.com]  
**Subject:** Loan Schedule Update  
**Attachments:** POAHYF Loan Schedule.xls

Borrower	Amount	Unfunded	Close Date	Maturity
Adame	\$ 28,544.00	\$ -	8/31/10	8/31/12
GilberSharpe--1700 Clifford	\$ 230,000.00	\$ 9,941.70	5/16/11	6/1/12
Midtown--7400 Cameron Rd	\$ 1,236,956.52	\$ 173,814.70	9/12/11	10/1/12
Quesnay--Lots 1-6 Colorado St	\$ 129,000.00	\$ -	3/31/11	4/1/12
Quesnay--1505-1507 Colorado St	\$ 325,000.00	\$ 39,894.71	3/31/11	4/1/12
Zoeller--6709 Tulsa Cove	\$ 55,593.64	\$ -	12/14/10	1/1/12
Cattell Inc--215 Yupon	\$ 80,000.00	\$ 6,025.00	9/1/11	9/1/12
POAH--1308 Walnut	\$ 300,000.00	\$ 24,541.99	9/15/11	9/15/12
POAH--1306 Walnut	\$ 275,000.00	\$ 177,425.12	12/29/12	1/1/13
FP1--8045 FM 359	\$ 1,725,000.00	\$ 1,105,872.00	9/27/11	4/1/13
FP2--8043 FM 359	\$ 1,725,000.00	\$ 1,106,251.41	12/20/11	7/1/13
POAH--525 Live Oak	\$ 32,000.00	\$ -		
611 Bissonet	\$ 5,500.00	\$ -		
105 Pine Barrens	\$ 77,252.00	\$ -		
Bruner--73 Dogwood Terrace	\$ 35,000.00	\$ 11,901.52		
<b>Total</b>	<b>\$ 6,259,846.16</b>			

Funded	\$ 3,604,178.01
Unfunded	\$ 2,655,668.15

## Message

**From:** Robert J Buchanan [rjb@prideofaustin.com]  
**Sent:** 2/2/2012 3:51:06 PM  
**To:** David F. Owen [/o=OEXCH080/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=e5f6a82309cc45599634cc6e8f22b1e5-dfo@PrideofAust]  
**Subject:** RE:  
**Attachments:** POAHYF Loan Schedule - Investors.xls

Address	Loan Type	Amount	Close Date	Maturity
Adame / Del Valle, TX	SFR - Foreclosure Rescue	\$ 28,544.00	8/31/10	8/31/12
GilberSharpe--1700 Clifford / Austin, TX	SFR - New Construction	\$ 230,000.00	5/16/11	6/1/12
Midtown--7400 Cameron Rd / Austin, TX	Retail Center Rehab	\$ 1,236,956.52	9/12/11	10/1/12
Quesnay--Lots 1-6 Colorado St / Houston, TX	Lot Loan for Future Devel	\$ 129,000.00	3/31/11	4/1/12
Quesnay--1505-1507 Colorado St / Houston, TX	Town Home New Construction	\$ 325,000.00	3/31/11	4/1/12
Zoeller--6709 Tulsa Cove / Austin, TX	SFR Rehab	\$ 55,593.64	4/1/11	3/31/12
Cattell Inc--215 Yupon / Vidor, TX	SFR Rehab	\$ 80,000.00	9/1/11	9/1/12
POAH--1308 Walnut / Austin, TX	SFR New Construction	\$ 250,000.00	9/15/11	9/15/12
POAH--1306 Walnut / Austin, TX	SFR New Construction	\$ 275,000.00	12/29/12	1/1/13
FP1--8045 FM 359 / Fulshear, TX	Medical Office New Construction	\$ 1,725,000.00	9/27/11	4/1/13
FP2--8043 FM 359 / Fulshear, TX	Medical Office New Construction	\$ 1,725,000.00	12/20/11	7/1/13
Bruner -- 73 Dogwood Terrace / Ellerslie, GA	SFR Rehab	\$ 35,000.00	2/1/12	1/31/13
<b>Total</b>		<b>\$ 6,095,094.16</b>		

## NOTES:

All Notes at 14%  
 All Loans Current and Performing  
 Total Portfolio LTV Less than 55%



# Failure to File Tax Returns

- POA did not file a tax return (form 1065) for tax years 2016-2023
- Despite not filing a return with the IRS, the Fund issued Schedule K-1 to Members that included grossly overstated income.

**Schedule K-1  
(Form 1065)** **2015**  
Department of the Treasury  
Internal Revenue Service

For calendar year 2015, or tax year beginning JAN 01, 2015 ending DEC 31, 2015

**Partner's Share of Income, Deductions, Credits, etc.** ▶ See back of form and separate instructions.

Part I	Information About the Partnership
A	Partnership's employer identification number 26-3920495
B	Partnership's name, address, city, state, and ZIP code PRIDE OF AUSTIN HIGH YIELD FUND 1 3600 N CAPITAL OF TX BLDG B STE 120 AUSTIN TX 78746-
C	IRS Center where partnership filed return Ogden
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)

Part II	Information About the Partner
---------	-------------------------------

**Schedule K-1  
(Form 1065)** **2017**  
Department of the Treasury  
Internal Revenue Service

For calendar year 2017, or tax year beginning 01 / 01 / 2017 ending 12 / 31 / 2017

**Partner's Share of Income, Deductions, Credits, etc.** ▶ See back of form and separate instructions.

Part I	Information About the Partnership
A	Partnership's employer identification number 26-3920495
B	Partnership's name, address, city, state, and ZIP code Pride of Austin High Yield Fund I LLC 3600 N Capital of TX HWY BLDG B 120 Austin TX 78746
C	IRS Center where partnership filed return e-file
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)

Part II	Information About the Partner
---------	-------------------------------

**Schedule K-1  
(Form 1065)** **2021**  
Department of the Treasury  
Internal Revenue Service

For calendar year 2021, or tax year beginning 01 / 01 / 2021 ending 12 / 31 / 2021

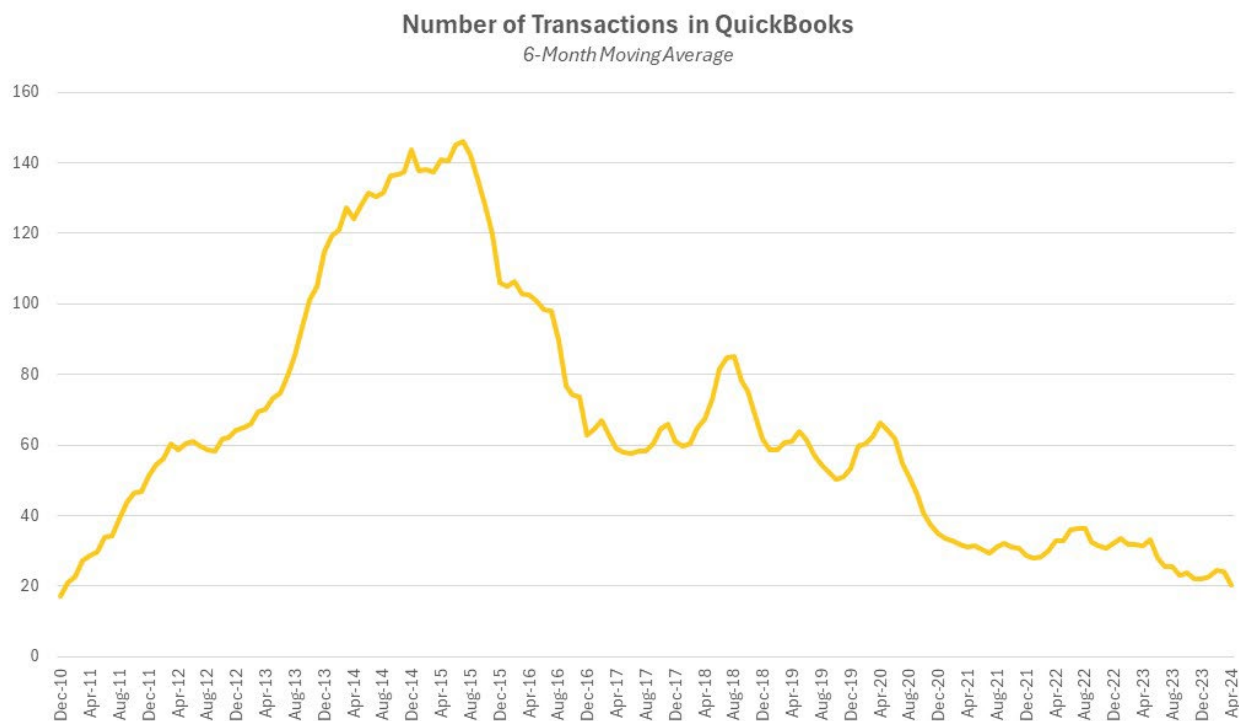
**Partner's Share of Income, Deductions, Credits, etc.** ▶ See back of form and separate instructions.

Part I	Information About the Partnership
A	Partnership's employer identification number 26-3920495
B	Partnership's name, address, city, state, and ZIP code Pride of Austin High Yield Fund I, LLC 3600 N. Capital of TX HWY BLDG B 120 Austin TX 78746
C	IRS center where partnership filed return ▶
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)

Part II	Information About the Partner
---------	-------------------------------

# Decline in Accounting Activity

- Starting in 2015, there was a material decline in accounting activity of the Fund despite stable distributions being paid to Members. This is further evidence of a decline in the operations of the business, which is incompatible with the consistent returns and distributions paid.



# Self Dealing

- The business conduct of the Fund, its Manager, and other affiliates was rife with self-dealing and conflicts of interest. While transactions were permitted between related parties, these transactions with related parties were certainly on more favorable terms than third party transactions, as required by the Fund's Operating Agreement

## Excerpt from LLCOA:

(d) Self-Dealing. In addition to the transactions expressly permitted by this Agreement, the Manager may enter into business transactions with the LLC if the terms of the transaction are no less favorable to the LLC than those of a similar transaction with an independent third party, including selling loans to, and buying loans from, the LLC.

**Diverted Funds to  
Affiliates or Self**

**Debt Service via  
PIK Interest**

**Limited to No  
Documentation**

**Lower Interest  
Rates & Fees**

# Self Dealing: Interest & Fees

## Millions of dollars of interest were not collected from CCG Development

- One example is below from the payoff of 1207 Cullen where CCGD paid \$9K of interest based on the below payoff letter when \$249K had been incurred over the two years that the loan was outstanding.

BORROWER: CCG Development, LLC		PRIDE OF AUSTIN HIGH YIELD FUND I, LLC	
ADDRESS: 1207 Cullen Ave			
Austin, Texas 78757			
<b>Loan Amount</b>		<b>\$</b>	<b>1,440,000.00</b>
Loan Interest		\$	9,113.42
Wire Fee		\$	-
Legal Fee		\$	-
Loan Balance		\$	1,440,000.00
<b>Total</b>	<b>Payoff as of December 21, 2023</b>	<b>\$</b>	<b>1,449,113.42</b>
Per Diem	\$	433.97	
<i>Robert Buchanan</i>			
Robert Buchanan			
CCG Capital Group, LLC			

Project	<b>1207 Cullen Ave</b>		
Paid Off	12/19/2023		
	Amount	Date	Interest
Initial Funding	600,000.00	10/1/2021	146,284.93
Draw 1	50,000.00	10/1/2021	12,190.41
Draw 2	25,000.00	11/24/2021	5,688.36
Draw 3	25,000.00	1/4/2022	5,379.45
Draw 4	25,000.00	2/14/2022	5,070.55
Draw 5	50,000.00	5/2/2022	8,980.82
Draw 6	100,000.00	7/10/2022	15,882.19
Draw 7	50,000.00	9/16/2022	6,916.44
Draw 8	50,000.00	9/28/2022	6,735.62
Draw 9	50,000.00	11/14/2022	6,027.40
Draw 10	25,000.00	12/6/2022	2,847.95
Draw 11	50,000.00	1/4/2023	5,258.90
Draw 12	50,000.00	1/6/2023	5,228.77
Draw 13	50,000.00	1/20/2023	5,017.81
Draw 14	50,000.00	1/27/2023	4,912.33
Draw 15	25,000.00	3/30/2023	1,989.04
Draw 16	25,000.00	4/17/2023	1,853.42
Draw 17	25,000.00	5/4/2023	1,725.34
Draw 18	25,000.00	10/18/2023	467.12
Draw 19	25,000.00	10/30/2023	376.71
Draw 20	15,000.00	11/3/2023	207.95
Draw 21	25,000.00	12/15/2023	30.14
Draw 22	25,000.00	12/18/2023	7.53
<b>TOTAL</b>	<b>1,440,000.00</b>		<b>249,079.18</b>



# Conflict of Interest



- Investment by the Fund in affiliated Pride of Austin Opportunity Fund increased the risk for the Fund, introduced material conflict of interest issues, and increased the potential for the Manager to double dip on management fees.
- No evidence that the Manager acted in the best interest of the Fund when managing outstanding loans to and defaults by CCGD

## POA Opportunity Fund

- Second Liens permitted provided first lien is held by High Yield Fund
- Up to 5 year term with extensions possible on first liens held by POA Opportunity Fund



Lunch & Learn | March 2017

CCGCAPITALGROUP.COM

# Self Dealing

Affiliates run by Buchanan would be on all sides of the transactions, making it virtually impossible for Buchanan to serve the best interest of the Fund and its Members.

## Alternative Investing – Why?

- Passive Income - Investor is not responsible for due diligence
- Mailbox Money → Direct Deposit Money
- Be the bank!
- Tangible asset – backed by REAL property



Lunch & Learn | March 2017  
CCGCAPITALGROUP.COM

**From:** Robert J Buchanan [<mailto:rjb@prideofaustin.com>]  
**Sent:** Tuesday, February 25, 2014 1:48 PM  
**To:** Bruce Hardesty  
**Cc:** David Owen  
**Subject:** FW: 509 Sacramento Dr., Austn, TX 78704

Bruce,

We have another loan set to close next Tuesday. The contract is attached. The borrower is:

Melody Drew Buchanan  
105 Pine Barrens Ct  
Austin Tx 78738

Pride of Austin Homes, LLC will be the builder.

The plan is to build a duplex on the lot after demolishing the original structure. The size of the duplex will be roughly 2,927SF or 1,464SF per side. The total loan amount will be \$700,000 with 3 Lender points, 11%, and 12 months.

### Message

**From:** Robert J Buchanan [[rjb@prideofaustin.com](mailto:rjb@prideofaustin.com)]  
**Sent:** 2/25/2014 3:07:28 PM  
**To:** David F. Owen [/o=OEXCH080/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=e5f6a82309cc45599634cc6e8f22b1e5-dfo@PrideofAust]  
**Subject:** RE: 509 Sacramento Dr., Austn, TX 78704

I don't think I sidestepped you. You were not available to discuss this deal the day a decision needed to be made. I was looking out for the best interest of the Fund and POAH. I needed to find a borrower that could make a quick decision. I found one and closed the deal. I am sure the Fund (investors) will enjoy making 14% on \$700k and lord knows POAH needs another project to keep it going.





# Questions

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Submit questions on website