

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
AND SUBSIDIARY

FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Ken Skrabanek, CPA
P.O. Box 1246
Crosby, Texas 77532

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AND SUBSIDIARY
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Independent Auditor's Report

To the Board of Directors
The New Property Owners Association of Newport, Inc.
Crosby, Texas

Report on the Financial Statements

I have audited the accompanying financial statements of The New Property Owners Association of Newport, Inc. and Subsidiary, which comprise the consolidating balance sheet as of December 31, 2020 and 2019, and the related consolidating statements of revenues and expenses and changes in fund balances/retained earnings, and the consolidated statements of cash flows for the years then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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



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internal control. Accordingly, I express no such opinion. An audit also includes evaluation of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New Property Owners Association of Newport, Inc. and Subsidiary as of December 31, 2020 and 2019, and its revenues and expenses, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic historical financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information, because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

W. Lee, CPA

Ken Skrabanek, CPA
Crosby, Texas
April 26, 2021

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
December 31, 2020 and 2019

	2020				2019			
	The New Property Owners Association of Newport, Inc.	Stonebridge at Newport, Inc.	Eliminations	Consolidated Total	The New Property Owners Association of Newport, Inc.	Stonebridge at Newport, Inc.	Eliminations	Consolidated Total
ASSETS								
Cash	\$862,422	\$50,100	\$-	\$912,522	\$381,102	\$3,602	\$-	\$384,704
Certificate of deposit	213,195	-	-	213,195	210,546	-	-	210,546
Assessments receivable, net	892,956	-	-	892,956	910,074	-	-	910,074
Other receivables	-	-	-	-	-	-	-	-
Inventory	-	7,746	-	7,746	-	12,823	-	12,823
Prepaid expenses	36,332	-	-	36,332	60,072	-	-	60,072
Investment in Stonebridge at Newport, Inc.	87,247	-	(87,247)	-	87,247	-	(87,247)	-
Advances to Stonebridge at Newport, Inc.	2,500,000	-	(2,500,000)	-	2,500,000	-	(2,500,000)	-
Utility deposit	-	2,351	-	2,351	-	2,351	-	2,351
Property and equipment, net	343,282	2,053,518	-	2,396,800	378,541	2,047,307	-	2,425,848
Total Assets	\$4,935,434	\$2,113,715	(\$2,587,247)	\$4,461,902	\$4,527,582	\$2,066,083	(\$2,587,247)	\$4,006,418
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable/accrued expenses	\$80,865	\$40,244	\$-	121,109	\$306,143	59,820	\$-	365,963
Prepaid assessments	365,477	-	-	365,477	354,007	-	-	354,007
Advances from Newport	-	2,500,000	(2,500,000)	-	-	2,500,000	(2,500,000)	-
Notes payable	141,483	1,386,173	-	1,527,656	151,927	1,495,570	-	1,647,497
Paycheck Protection Plan loan	78,500	70,000	-	148,500	-	-	-	-
Capital lease obligations	-	120,712	-	120,712	-	112,138	-	112,138
Total Liabilities	666,325	4,117,129	(2,500,000)	2,283,454	812,077	4,167,528	(2,500,000)	2,479,605
Fund balances/stockholder's equity	4,269,109	(2,003,414)	(87,247)	2,178,448	3,715,505	(2,101,445)	(87,247)	1,526,813
Total Liabilities and Fund Balances	\$4,935,434	\$2,113,715	(\$2,587,247)	\$4,461,902	\$4,527,582	\$2,066,083	(\$2,587,247)	\$4,006,418

The accompanying notes are an integral part of the financial statements.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES/RETAINED EARNINGS
For the Years Ended December 31, 2020 and 2019

	2020		2019	
	The New Property Owners Association of Newport, Inc.	Stonebridge at Newport, Inc.	Eliminations	Consolidated Total
REVENUES				
Homeowner assessments	\$2,676,080	\$-	\$-	\$2,388,751
Late charges and other	410,160	15,326	-	446,692
Insurance proceeds	-	-	-	-
Event revenues	-	45,222	-	36,618
Galley Grill	-	164,962	-	170,731
Golf operations	-	663,409	-	255,138
Total Revenues	3,086,240	888,919	-	3,297,930
COST OF SALES				
Events	-	18,735	-	11,778
Galley Grill	-	117,654	-	128,300
Golf operations	-	195,812	-	174,317
Total Cost of Sales	-	332,201	-	314,395
NET BEFORE OTHER EXPENSES	3,086,240	556,718	-	2,983,535
ADMINISTRATIVE AND OTHER EXPENSES				
Sheriff contract/patrol services	272,033	-	-	276,660
Other contract services	35,670	-	-	41,280
Utilities	257,831	52,566	-	299,278
Grounds maintenance	308,634	10,800	-	303,332
Pool operations	75,744	-	-	79,776
Major repairs and maintenance	112,278	28,758	-	139,233
General maintenance and repairs	99,318	69,402	-	138,306
Insurance and taxes	83,752	47,862	-	178,573
Newsletter/community events	5,401	-	-	61,492
Bad debt expense	140,446	-	-	-
Other administrative costs	180,323	83,937	-	378,661
Interest expense	7,506	83,504	-	91,040
Depreciation expense	35,259	108,991	-	136,466
Contingencies/litigation	-	-	-	-
Payroll costs	477,521	413,785	-	971,188
Total Expenses	2,091,718	899,605	-	3,116,285
Revenues Over (Under) Expenses Before Stonebridge Advances	994,522	(342,887)	-	(132,750)
Excess (advances) to Stonebridge-current year	(440,918)	-	440,918	-
Excess (advances) to Stonebridge-prior years	-	-	-	693,586
Excess advances from NPOAN-current year	-	440,918	(440,918)	313,423
Excess advances from NPOAN-prior years	-	-	-	(693,586)
Total excess advances	(440,918)	440,918	-	-
Revenues Over (Under) Expenses	553,604	98,031	-	(132,750)
Fund Balance/Retained earnings, beginning of year	3,715,505	(2,101,445)	-	1,746,810
Fund Balance/Retained earnings, end of year	\$4,269,109	(\$2,003,414)	\$-	\$1,614,050

The accompanying notes are an integral part of the financial statements.

**THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$651,635	(\$132,750)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation expense	144,250	136,466
Bad debt allowance (reduction) expense	140,448	(108,678)
(Increase) decrease in assets:		
Certificates of deposit	(2,649)	(546)
Assessments receivable	(123,330)	143,439
Prepaid expenses and other	28,817	15,861
Due from related party	-	-
Due from Newport Golf Partners	-	-
Increase (decrease in liabilities)		
Accounts payable	(244,854)	75,310
Prepaid assessments	11,470	40,503
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>605,787</u>	<u>169,605</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	148,500	-
Principal payments on note payables	(119,841)	(105,926)
Proceeds from capital lease obligation	98,207	-
Principal payments on capital lease	(89,633)	(71,559)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>37,233</u>	<u>(177,485)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(115,202)	-
Proceeds from certificates of deposit	-	240,038
Purchase of certificate of deposit	-	(210,000)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(115,202)</u>	<u>30,038</u>
NET INCREASE (DECREASE) IN CASH	527,818	22,158
CASH, BEGINNING OF YEAR	<u>384,704</u>	<u>362,546</u>
CASH, END OF YEAR	<u><u>\$912,522</u></u>	<u><u>\$384,704</u></u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid	<u>\$-</u>	<u>\$-</u>
Interest paid	<u>\$91,010</u>	<u>\$91,040</u>

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 1 - Nature of Organization

The New Property Owners Association of Newport, Inc. (the "Association") was incorporated as a Texas non-profit corporation in 1996 to provide for the operation and maintenance of the common property of Newport, a residential subdivision located in Crosby, Texas. On December 4, 2015, the Association formed and acquired all of the outstanding shares of stock of Stonebridge at Newport, Inc. ("Stonebridge"). Collectively, the Association and Stonebridge are referred to as the Company.

Note 2 - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Association is presented to assist in understanding the Association's financial statements. The financial statements and notes are the representation of the Association's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Principles of Consolidation

The accompanying financial statements include the accounts of the Association and its wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Members have the option of paying their assessments on a yearly basis or on a monthly basis. Any excess assessments at year end are retained by the Association for use in future years. Liens can be attached on the properties of homeowners whose assessments are in arrears.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Summary of Significant Accounting Policies (Continued)

Event and Golf Revenues

Stonebridge engages in operating a golf course, sponsoring events (such as weddings) and providing food and beverage to patrons. Revenues from such activities are recorded as the related activities are provided. Event deposits, which are nonrefundable are recorded as revenue as received. Golf memberships paid in advance are deferred and recognized as revenue over the term of the membership.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements in accordance with accepted accounting practices for homeowners associations. The Association capitalizes significant personal property it acquires.

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. Stonebridge is a "C" corporation and is a taxable entity under applicable sections of the Internal Revenue Code. At December 31, 2020, Stonebridge had a net operating loss for federal income tax purposes in the amount of \$2,018,512.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers investments with a maturity of three months or less to be cash equivalents.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 3 - Concentrations

The Company maintains cash accounts and certificates of deposit, which at times, may exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not exposed to any significant credit risk on its cash accounts.

Note 4 - Management

Effective November 1, 2010, the Association became fully self-managed.

Note 5 - Allowance for Doubtful Accounts

The Association has provided an allowance for accounts which are considered doubtful of collection. This allowance is based on several factors, including consideration of the statute of limitations for collection of assessments from members, historical information on the collection of assessments in the succeeding years after they are billed to members, and the nature of amounts included in such assessments (such as legal fees, finance charges, etc.). Since becoming self-managed, the Association has experienced increased collection rates, and believes such trends will continue in the future. At December 31, 2020, an allowance of \$358,601 has been established for accounts which are considered doubtful of collection.

Note 6 - Future Major Repairs and Replacements

The Association conducted an internal study to determine the remaining useful lives or replacement costs of the components of common property. The study was based on the past history of major repairs and replacements, and management's knowledge of needed repairs and replacements needed. The results of the study are presented on page 14.

At December 31, 2020, the Association maintained an account at a local bank designated as a reserve account. At December 31, 2020, this account had a balance of \$50,008. Actual expenditures for future major repairs and replacements may be greater than funds accumulated for those purposes. When major repairs and replacement funds are needed, the Association has the right to increase regular assessments or pass special assessments, or may delay such replacements until funds are available.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 7 - Stonebridge Purchase

In January, 2016, Stonebridge purchased all the real, personal and intangible property related to the Newport Golf Club and Conference Center (the "Club"). Such property included an eighteen hole golf course, the pro shop, conference center, and country club, and all furniture and fixtures related thereto. The purchase price was \$1,400,000. Subsequent to the purchase, the Association and Stonebridge made significant improvements to the golf course, the country club building, and acquired new equipment for the maintenance of the golf course.

Through December 31, 2019, Stonebridge sustained substantial operating losses. Such operating losses were reduced in fiscal 2020 as a result of increased rounds of golf played at the Club, and tighter fiscal policies related to operating expenses. Such operating losses amounted to \$343,000 for the year ended December 31, 2020 and \$1,079,000 for the year ended December 31, 2019. Continued operations of the Club for these years was generally dependent on advances from the Association. Continued operation of the Club is dependent on further improvements in operating results and/or continued advances of funds from the Association.

On October 26, 2018, the Association and Stonebridge entered into a management agreement (the "agreement") with Billy Casper Golf, LLC ("BCG"). Under the terms of the management agreement, BCG was to provide management services, and to manage the day to day affairs of the Club. The agreement commenced on October 28, 2018, and was to expire on December 23, 2023. The agreement provided for two three year extensions of the agreement. The base management fee under the agreement was \$8,000 per month. In addition, BCG was to earn an incentive management fee depending on improvements in the operating results fo the Club. The agreement was terminated by Stonebridge in September, 2019.

At December 31, 2019, total advances to Stonebridge by the Association amounted to \$3,507,009. Management of the Association has concluded that the maximum amount of funds the Association could recover from a sale or other disposition of Stonebridge would be limited to \$2,500,000. As a result, any further advances to Stonebridge by the Association will be considered to be part of the overall expenses of the Association, and part of the overall income of Stonebridge. As a result, amounts of \$440,918 and \$1,007,009 was expensed by the Association, and included as revenues of Stonebridge during the years ended December 31, 2020 and December 31, 2019. Of this amount for 2019, \$693,586 applied to net advances made during the year ended December 31, 2019, and \$313,423 applied to advances made in prior years.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 8 - The Villas at Newport

The Association has entered into a management agreement with Villas at Newport Community Association ("the Villas"). Under the agreement the Association manages the daily operations of the Villas in exchange for a management fee of \$12,000 annually.

Note 9 - Notes Payable

In connection with the purchase discussed at Note 7 above, Stonebridge borrowed an amount of \$2,000,000 from a local bank. The proceeds were used to pay off an existing loan of the Association, complete the purchase, and provide working capital to fund necessary equipment purchases and building improvements. In addition, a portion of the funds were used to fund deficit operations of the golf course and country club. A portion of the loan equivalent to the outstanding balance of the Association loan was allocated to the Association. The balance of the loan was allocated to Stonebridge. The loan matured on January 22, 2021. At that time the loan was extended for an additional five years. The extended loan is repayable in monthly installments of \$15,891, including interest at the rate of 5%. The loan is payable in sixty monthly installments, with a final payment due and payable on January 22, 2026. The loan is secured by substantially all of the assets of Stonebridge and by certain property and assessments of the Association. At December 31, 2020, required principal installments on the note described above, based on the contractual required monthly payments, are as follows (before extension of the loan):

<u>Year</u>	<u>Amount</u>
2021	\$ 1,503,186

Under the terms of the loan agreement, the Association and Stonebridge are required to maintain liquidity at the end of any calendar year in the amount of at least \$190,000. Liquidity is defined as cash balances that belong to the Association and Stonebridge, and which are not owned pledged to or encumbered by a third party. If liquidity is determined to be less than \$190,000, the Association is required to immediately cause a dues increase of \$5.00 per month on all persons subject to the dues of the Association. At December 31, 2020 and 2019, liquidity, as defined in the loan agreement amounted to \$912,522 and \$236,165, respectively.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 9 - Notes Payable (continued)

In addition, Stonebridge borrowed an additional amount of \$33,124 from a local bank. The note bears interest at the rate of 5.5%, and was due in monthly installments of interest only until February 24, 2020. At maturity, the note was renewed for a three year term. The note is due in monthly instalments of \$1,001, which includes principal and interest at the rate of 5.5% Required principal installments on the note are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 10,939
2022	11,556
2023	1,975

Both the Association and Stonebridge applied for and were granted loans under the Paycheck Protection Program ("PPP"). The Association was loaned \$78,500 under the program and Stonebridge was loaned \$70,000. Proceeds from the loans are to be used for qualifying expenses, which include payroll costs, mortgage and lease payments, and utilities. The loan bears interest at the rate of 1% per annum.

The loans and related interest will be forgiven so long as the Association and Stonebridge are able to document the proceeds from the loans were used for allowable expenses.

Both the Association and Stonebridge were notified subsequent to December 31, 2020 that the loans had been forgiven.

Note 10 - Capital Lease Obligations

In order to finance the acquisition of certain golf course maintenance equipment, Stonebridge has entered into four capital lease obligations with three different finance companies. The leases contains a bargain purchase option at the end of the lease term. These leases are due in various terms with installments ranging from \$275 per month to \$5,040 per month. The leases include interest at implicit rates ranging from 0% to 4.6%.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Required principal installments on the capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 39,942
2022	28,366
2023	22,598
2024	22,120
2025	7,686

Note 11 - Property and Equipment

Property and equipment consists of the following:

<u>Description</u>	<u>2020</u>	<u>2019</u>
Land	\$ 836,000	\$ 836,000
Buildings and improvements	1,514,488	1,514,488
Other equipment	<u>919,775</u>	<u>804,573</u>
Total	3,270,263	3,155,061
Less-Accumulated depreciation	<u>873,463</u>	<u>729,213</u>
Net property and equipment	\$ <u>2,396,800</u>	\$ <u>2,425,848</u>

Depreciation expense amounted to \$144,250 and \$121,938 for the years ended December 31, 2020 and 2019.

Note 12 - Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, certificates of deposits, accounts receivable, accounts payable and accrued expenses, prepaid assessments, and notes payable. The recorded values of these financial instruments approximate their fair value based on their short term nature.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 13 - Accounting for Contracts with Customers

The Financial Accounting Standards Board issued new guidance that amended ASC Topic 606, "Revenue from Contracts with Customers," which is effective for annual reporting periods beginning after December 15, 2018 for all entities, including the Association and Stoneberidge. Under FASB ASC 606, revenue is recognized based upon certain principles of identifying those contracts and the underlying performance obligations (such as shipping and handling).

The Association and Stonebridge have evaluated the provisions of Topic 606, and have concluded no changes are necessary to their current revenue recognition policies.

Note 14 - Date of Management's Review

Subsequent events were evaluated through April 27, 2021, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE
 MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
 December 31, 2020

In 2015, the Association conducted an internal study to estimate the remaining useful lives and the estimated costs of future major repairs and replacements. Replacement costs were based on the estimated costs to repair or replace the common property at the date of the study. The total estimated current replacement costs do not take into account the effects of inflation.

The following information is based on the study, and presents significant information about the components of common property.

<u>Component</u>	<u>Expected Replacement Year</u>	<u>Replacement Cost</u>
Replaster pool	2018	\$ 40,150
Reseal pool deck	2018	15,000
Replace tennis court decks	2019	70,000
Replace perimeter fencing	2021-2024	80,000
Replace lake bulkhead	2017-2018	40,000
Replace bulkheads-ponds	2020	<u>35,000</u>
Total		\$ <u>280,000</u>

The accompanying notes are an integral part of the financial statements