

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

FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2020

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

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AND SUBSIDIARY
FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2020

TABLE OF CONTENTS

	<u>Page</u>
Accountant's Compilation Report	1
Consolidating Balance Sheet	2
Consolidating Statement of Revenues and Expenses and Changes in Fund Balances/Retained Earnings	3
Consolidated Statement of Cash Flows	4
Notes to Financial Statements	5
Supplementary Information on Future Major Repairs and Maintenance (unaudited)	13

KEN SKRABANEK CPA
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Accountant's Compilation Report

Board of Directors
The New Property Owners Association of Newport, Inc.
P.O. Box 1362
Crosby, Texas 77532

Board of Directors:

Management is responsible for the accompanying financial statements of The New Property Owners Association of Newport, Inc. and Subsidiary, which comprise the balance sheet as of June 30, 2020, and the related statement of revenues and expenses and changes in fund balances/retained earnings, and cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Disclaimer of Opinion On Required Supplementary Information About Future Major Repairs and Replacements

Accounting principles generally accepted in the United States of America require that information about future major repairs and replacements of common property on page 13 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have not performed an audit, review, or compilation on the required supplementary information and, accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on the information.

Ken, CPA

Ken Skrabanek, CPA
Crosby, Texas
November 5, 2020

**THE NEW PROPERTY OWNERS ASSOCIATION
OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
September 30, 2020**

	2020			
	The New Property Owners Association of Newport, Inc.	Stonebridge at Newport, Inc.	Eliminations	Consolidated Total
ASSETS				
Cash	737,669	66,152	\$-	803,821
Certificate of deposit	210,546	-	-	210,546
Assessments receivable, net	957,223	-	-	957,223
Other receivables	425	-	-	425
Inventory	-	10,050	-	10,050
Prepaid expenses	60,072	-	-	60,072
Investment in Stonebridge at Newport, Inc.	87,247	-	(87,247)	-
Advances to Stonebridge at Newport, Inc.	2,500,000	-	(2,500,000)	-
Utility deposit	-	2,351	-	2,351
Property and equipment, net	352,097	2,080,766	-	2,432,863
Total Assets	4,905,279	2,159,319	(2,587,247)	4,477,351
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable/accrued expenses	96,979	61,990	\$-	158,969
Prepaid assessments	287,723	-	-	287,723
Advances from Newport	-	2,500,000	(2,500,000)	-
Notes payable	144,140	1,413,595	-	1,557,735
SBA PPP Loan	78,500	70,000	-	148,500
Capital lease obligations	-	136,839	-	136,839
Total Liabilities	607,342	4,182,424	(2,500,000)	2,289,766
Fund balances/stockholder's equity	4,297,937	(2,023,105)	(87,247)	2,187,585
Total Liabilities and Fund Balances	4,905,279	2,159,319	(2,587,247)	4,477,351

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

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONDOLIDATING STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES/RETAINED EARNINGS
For the Nine Months Ended September 30, 2020

2020

	The New Property Owners Association of Newport, Inc.	Stonebridge at Newport, Inc.	Eliminations	Consolidated Total
REVENUES				
Homeowner assessments	1,957,251	\$-	\$-	\$1,957,251
Late charges and other	329,874	11,482	-	341,356
Insurance proceeds	-	-	-	-
Event revenues	-	32,511	-	32,511
Galley Grill	-	116,596	-	116,596
Golf operations	-	475,636	-	475,636
Total Revenues	2,287,125	636,225	-	2,923,350
COST OF SALES				
Events	-	18,487	-	18,487
Galley Grill	-	76,396	-	76,396
Golf operations	-	150,141	-	150,141
Total Cost of Sales	-	245,024	-	245,024
NET BEFORE OTHER EXPENSES	2,287,125	391,201	-	2,678,326
ADMINISTRATIVE AND OTHER EXPENSES				
Sheriff contract/patrol services	232,040	-	-	232,040
Utilities	190,421	39,331	-	229,752
Grounds maintenance	230,960	8,100	-	239,060
Pool operations	71,501	-	-	71,501
Major repairs and maintenance	74,975	-	-	74,975
General maintenance and repairs	76,399	57,832	-	134,231
Insurance and taxes	42,081	30,836	-	72,917
Newsletter/community events	6,551	-	-	6,551
Other administrative costs	141,414	56,474	-	197,888
Interest expense	5,671	56,467	-	62,138
Depreciation expense	26,444	81,743	-	108,187
Contingencies/litigation	11,315	-	-	11,315
Payroll costs	308,091	268,908	-	576,999
Total Expenses	1,417,863	599,691	-	2,017,554
Revenues Over (Under) Expenses Before Stonebridge Advances	869,262	(208,490)	-	660,772
Advances to Stonebridge	(286,830)		286,830	-
Advances from NPOAN	-	286,830	(286,830)	-
Total advances	(286,830)	286,830	-	-
Revenues Over (Under) Expenses	582,432	78,340	-	660,772
Fund Balance/Retained earnings, beginning of year	3,715,505	(2,101,445)	(87,247)	1,526,813
Fund Balance/Retained earnings, end of year	\$4,297,937	(\$2,023,105)	\$-	\$2,187,585

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 Nine Months Ended September 30, 2020**

	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Revenues over (under) expenses	660,772
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation expense	108,187
(Increase) decrease in assets:	
Assessments receivable	(47,149)
Prepaid expenses and other	2,348
Increase (decrease in liabilities)	
Accounts payable	(206,994)
Prepaid assessments	<u>(66,284)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>450,880</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from note payable	148,500
Principal payments on note payables	(89,762)
Proceeds from capital lease obligation	98,207
Principal payments on capital lease	<u>(73,506)</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>83,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(115,202)</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(115,202)</u>
NET INCREASE (DECREASE) IN CASH	419,117
CASH, BEGINNING OF YEAR	<u>384,704</u>
CASH, END OF YEAR	<u><u>803,821</u></u>
SUPPLEMENTAL DISCLOSURES:	
Income taxes paid	<u><u>\$-</u></u>
Interest paid	<u><u>\$62,138</u></u>

The accompanying notes are an integral part of the financial statements

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

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
September 30, 2020

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, 2019, Stonebridge had a net operating loss for federal income tax purposes in the amount of \$2,188,693.

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
September 30, 2020

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 September 30, 2020, an allowance of \$218,578 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 13.

At September 30, 2020, the Association had a separate bank account designated as a reserve account. At September 30, 2020, this account had a balance of \$37,501. 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
September 30, 2020

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.

Stonebridge has sustained substantial operating losses since its acquisition of the Club through December 31, 2019. Such operating losses amounted to \$1,079,000 for the year ended December 31, 2019 and \$896,000 for the year ended December 31, 2018. Continued operations of the Club for these years was generally dependent on advances from the Association. Such operating losses have continued through September 30, 2020, but have been substantially less than in prior years. For the nine months ended September 30, 2020, the Association advanced a total of \$286,830 To Stonebridge. Continued operation of the Club is dependent on an improvement 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 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, an amount of \$286,830 was expensed by the Association, and included as revenues of Stonebridge during the nine months ended September 30, 2020.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

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. Funds collected on behalf of the Villas are transmitted to the Villas on a periodic basis. At September 30, 2020, an amount of \$2,541 was payable to the Villas. Such amounts, which are payable to the Villas, are included in accounts payable/accrued expenses in the accompanying balance sheet.

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 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, 2021. The loan is secured by substantially all of the assets of Stonebridge and by certain property and assessments of the Association. Required principal installments on the note for the year ended September 30, 2021, as described above, based on the contractual required monthly payments, are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 1,531,620

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 due increase of \$5.00 per month on all persons subject to the dues of the Association.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

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 for the years ending September 30, are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 10,846
2022	11,458
2023	3,811

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 5.78%.

Required principal installments on the capital leases for the years ended September 30, are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 52,477
2022	26,169
2023	23,965
2024	21,821
2025	12,407

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

Notre 11 - Paycheck Protection Loan

The Association and Stonebridge each applied for and received funding Under a Paycheck Protection Loan administered by the U.S. Small Business Administration. The Association received \$78,500, and Stonebridge received \$70,000 under the program. Such amounts are currently included in notes payable in the accompanying balance sheet. If certain conditions are met, the SBA will forgive the loans. Any amount not forgiven must be repaid, with interest at the rate of 1%.

Note 12 - Property and Equipment

AT September 30, 2020, property and equipment consists of the following:

<u>Description</u>	<u>2020</u>
Land	\$ 836,000
Buildings and improvements	1,514,488
Other equipment	<u>919,775</u>
Total	3,270,263
Less-Accumulated depreciation	<u>837,400</u>
Net property and equipment	\$ <u>2,429,309</u>

Depreciation expense amounted to \$108,187 for the nine months ended September 30, 2020.

Note 13 - 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.

Note 14 - Date of Management's Review

Subsequent events were evaluated through November 5, 2020, 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)
 September 30, 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