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

FINANCIAL STATEMENTS

For the Year Ended December 31, 2022

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
The New Property Owners Association of Newport, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidating financial statements of The New Property Owners Association of Newport, Inc. and Subsidiary, which comprise the consolidating balance sheet as of December 31, 2022, and the related consolidating statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of The New Property Owners Association of Newport, Inc. and Subsidiary as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The New Property Owners Association of Newport, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note I are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidating financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The New Property Owners Association of Newport, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidating financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidating financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidating financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidating financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 New Property Owners Association of Newport, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidating financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The New Property Owners Association of Newport, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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 financial statements in an appropriate operational, economic, or historical context. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cox CPA Services, Inc.

Cox CPA Services, Inc.
Houston, Texas
May 1, 2023

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
December 31, 2022

	The Property Owners Association of Newport, Inc.				
	Operating Fund	**Reserve Fund**	**Stonebridge at Newport, Inc.**	**Eliminations**	**Consolidated Total**
ASSETS					
Current Assets					
Cash	$ 951,789	$ 146,195	$ 21,384	$ -	$ 1,119,368
Certificate of deposit	215,269	-	-	-	215,269
Assessments receivable, net of an allowance for doubtful accounts of $389,000	1,008,899	-	-	-	1,008,899
Accounts receivable	-	-	13,327	-	13,327
Inventory	-	-	14,653	-	14,653
Investment in Stonebridge at Newport, Inc.	87,248	-	-	(87,248)	-
Advances to Stonebridge at Newport, Inc.	2,500,000	-	-	(2,500,000)	-
Utility deposit	-	-	2,351	-	2,351
Right-of-use asset	-	-	149,526	-	149,526
Prepaid expense	66,843	-	18,267	-	85,110
TOTAL CURRENT ASSETS	4,830,048	146,195	219,508	(2,587,248)	2,608,503
Property and Equipment					
Land, buildings, and equipment	1,046,162	-	2,605,293	-	3,651,455
Accumulated depreciation	(527,743)	-	(660,603)	-	(1,188,346)
	518,419	-	1,944,690	-	2,463,109
TOTAL ASSETS	$ 5,348,467	$ 146,195	$ 2,164,198	$ (2,587,248)	$ 5,071,612
LIABILITIES AND FUND BALANCES					
Current Liabilities					
Accounts payable and other accrued expenses	$ 72,356	$ -	$ 72,163	$ -	$ 144,519
Prepaid assessments	447,925	-	-	-	447,925
Refundable/event deposits	76,155	-	20,235	-	96,390
Advances from Newport	-	-	2,500,000	(2,500,000)	-
Current potion of operating lease liability	-	-	54,373	-	54,373
Current portion of finance lease obligations	-	-	42,462	-	42,462
Current portion of long-term debt	11,556	-	131,595	-	143,151
TOTAL CURRENT LIABILITIES	607,992	-	2,820,828	(2,500,000)	928,820
Long-Term Liabilities					
Operating lease liability, less current portion	-	-	95,153	-	95,153
Finance lease obligations, less current portion	-	-	71,589	-	71,589
Note payable, less current portion	108,262	-	1,053,322	-	1,161,584
TOTAL LONG-TERM LIABILITIES	108,262	-	1,220,064	-	1,328,326
TOTAL LIABILITIES	716,254	-	4,040,892	(2,500,000)	2,257,146
FUND BALANCES	4,632,213	146,195	(1,876,694)	(87,248)	2,814,466
TOTAL LIABILITIES AND FUND BALANCES	$ 5,348,467	$ 146,195	$ 2,164,198	$ (2,587,248)	$ 5,071,612

See accompanying notes to financial statements.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2022

	The Property Owners Association of Newport, Inc.				
	Operating Fund	**Reserve Fund**	**Stonebridge at Newport, Inc.**	**Eliminations**	**Consolidated Total**
REVENUES					
Regular assessments	$ 2,826,817	$ 45,833	$ -	$ -	$ 2,872,650
Late charges, transfer fees and other income	533,491	-	830	-	534,321
Interest income	-	1,415	-	-	1,415
Event revenues	-	-	146,757	-	146,757
Galley Grill	-	-	346,559	-	346,559
Golf operations	-	-	693,764	-	693,764
Rental income	-	-	15,000	-	15,000
TOTAL REVENUES	3,360,308	47,248	1,202,910	-	4,610,466
COST OF SALES					
Events	-	-	99,452	-	99,452
Galley Grill	-	-	94,245	-	94,245
Golf operations	-	-	37,610	-	37,610
TOTAL COST OF SALES	-	-	231,307	-	231,307
NET BEFORE OTHER EXPENSES	3,360,308	47,248	971,603	-	4,379,159
EXPENSES					
Administrative expense	192,984	-	82,815	-	275,799
Bad debt expense	21,948	-	-	-	21,948
Cable expense	-	-	9,738	-	9,738
Capital improvements	-	243,815	-	-	243,815
Community events	59,238	-	-	-	59,238
Depreciation expense	30,107	-	128,093	-	158,200
Insurance	82,333	-	76,774	-	159,107
Interest expense	6,392	-	69,637	-	76,029
Landscaping	319,262	-	10,800	-	330,062
Legal and professional	40,932	-	1,920	-	42,852
Pest control	32,170	-	-	-	32,170
Payroll expenses	584,661	-	802,886	-	1,387,547
Pool operations	93,475	-	-	-	93,475
Property and sales taxes	56,080	-	14,500	-	70,580
Rental expense	-	-	66,591	-	66,591
Repairs and maintenance	91,080	-	251,274	-	342,354
Sanitation	-	-	5,796	-	5,796
Sheriff contract/patrol service	505,964	-	14,342	-	520,306
Utilities	275,826	-	68,604	-	344,430
TOTAL EXPENSES	2,392,452	243,815	1,603,770	-	4,240,037
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE STONEBRIDGE ADVANCES	967,856	(196,567)	(632,167)	-	139,122
Excess (advances) to Stonebridge	(500,917)	-	-	500,917	-
Excess (advances) from NPOAN	-	-	500,917	(500,917)	-
TOTAL EXCESS ADVANCES	(500,917)	-	500,917	-	-
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	466,939	(196,567)	(131,250)	-	139,122
BEGINNING FUND BALANCES	4,580,554	100,045	(1,918,184)	(87,248)	2,675,167
Transfers between funds	(415,280)	242,717	172,740	-	177
ENDING FUND BALANCES	$ 4,632,213	$ 146,195	$ (1,876,694)	$ (87,248)	$ 2,814,466

See accompanying notes to financial statements.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

	The Property Owners Association of Newport, Inc.				
	Operating Fund	Reserve Fund	Stonebridge at Newport, Inc.	Eliminations	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Excess (deficit) of revenues over expenses	$ 466,939	$ (196,567)	$ (131,250)	$ -	$ 139,122
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:					
Depreciation	30,107	-	128,093	-	158,200
(Increase) decrease in:					
Assessments receivable	76,177	-	-	-	76,177
Accounts receivable	-	-	(13,327)	-	(13,327)
Inventory	-	-	(6,133)	-	(6,133)
Prepaid expense	(54,299)	-	(1,090)	-	(55,389)
Increase (decrease) in:					
Accounts payable	22,767	-	20,296	-	43,063
Refundable/event deposits	3,100	-	(5,115)	-	(2,015)
Prepaid assessments	18,663	-	-	-	18,663
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	563,454	(196,567)	(8,526)	-	358,361
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of equipment	(237,762)	-	(38,501)	-	(276,263)
Certificates of deposit-reinvestment of interest income	(1,276)	-	-	-	(1,276)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(239,038)	-	(38,501)	-	(277,539)
CASH FLOWS FROM FINANCING ACTIVITIES					
Interfund transfers	(415,280)	242,717	172,740	-	177
Principal payments on finance lease	-	-	(41,579)	-	(41,579)
Principal payments on notes payable	(11,557)	-	(101,340)	-	(112,897)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(426,837)	242,717	29,821	-	(154,299)
NET INCREASE (DECREASE) IN CASH	(102,421)	46,150	(17,206)	-	(73,477)
CASH AT BEGINNING OF YEAR	1,054,210	100,045	38,590		1,192,845
CASH AT END OF YEAR	$ 951,789	$ 146,195	$ 21,384	$ -	$ 1,119,368
SUPPLEMENTAL DISCLOSURE					
Income taxes paid	$ -	$ -	$ -	$ -	$ -
Interest paid	$ 6,392	$ -	$ 69,637		$ 76,029

See accompanying notes to financial statements.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
December 31, 2022

NOTE A—NATURE OF ORGANIZATION

The New Property Owners Association of Newport, Inc. was incorporated in the State of Texas on January 8, 1996. The Association is responsible for the operation and maintenance of the common property. The Association consists of approximately 4,200 lots, as well as common areas such as park areas, beach area, swimming pool, tennis court, and other various amenities and is 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), which is a golf course. Collectively, the association and Stonebridge are referred to as the Company.

NOTE B—DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 1, 2023, the date that the financial statements were available to be issued.

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Fund Accounting
The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

> Operating Fund—This fund is used to account for financial resources available for the general operations of the Association.
>
> Reserve Fund—This fund is used to accumulate financial resources designated for future major repairs and replacements.

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. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Management analyzes the collectability of assessments receivable on a regular basis and allows for bad debt expense for those it feels are not collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents
The Association considers all short term investments with a maturity of three months or less to be cash equivalents.

Inventory
Inventory is valued at the lower of cost of market using the first-in, first-out method of inventory costing. Inventory consists primarily of golf equipment and golf attire.

Property and Equipment-Newport POA
Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method over the estimated useful life.

Property and Equipment-Stonebridge
Property and equipment that is purchased are recorded at cost. Equipment under capital lease was recorded at the present value of the minimum lease payments. Property and equipment purchased or held under capital leases are depreciated on the straight-line basis over the asset's estimated useful life. The cost of maintenance and repairs is charged to operations as incurred; however, significant refurbishments or improvements, which extend the life or usefulness of an asset, are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. The Company continuously reviews the carrying value of its property and equipment for possible impairment. When applicable, the book amounts are reduced to fair values.

Prepaid Assessments
Prepaid assessments represent payments received from association members during the current year which relate to assessments for the subsequent year.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk
The Association maintains a majority of its cash balances at one financial institution. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to $250,000. Uninsured balances are approximately $1,127,391 as of December 31, 2022.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
December 31, 2022

NOTE C—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.

NOTE D—PROPERTY & EQUIPMENT

Property and equipment consisted of the following at December 31, 2022:

	Estimated Life in Years	
Land - Stonebridge		$ 836,000
Building and equipment - Newport POA	5 - 40	1,046,162
Building and equipment - Stonebridge	5 - 40	1,570,863
Finance leases - Stonebridge - right-of-use asset	7	198,430
		3,651,455
Less: Accumulated depreciation		1,188,346
		$ 2,463,109

Depreciation expense was approximately $158,200 for the year ended December 31, 2022.

Accumulated depreciation above includes accumulated amortization on equipment under finance leases, as of December 31, 2022, of $61,888. Depreciation related to the finance leases included in depreciation expense was approximately $28,347 for 2022.

NOTE E – NOTES PAYABLE

On January 22, 2021, the Company extended a previously existing loan 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 120 monthly installments, with a final payment due and payable on January 22, 2031. The loan is secured by substantially all of the assets of Stonebridge and by certain property and assessments of the Association. At December 31, 2022, required principal installments on the note described above, based on the contractual required monthly payments, are as follows (before extension of the loan):

Year	Amount
2023	$ 129,132
2024	135,670
2025	142,872
2026	150,285
2027	158,084
Thereafter	557,059
	$ 1,273,102

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, 2022, liquidity, as defined in the loan agreement amounted to $1,334,460.

Also, Stonebridge financed the purchase of a John Deere tractor costing $32,999 with John Deere Financial in March 2018. The note is due in 60 monthly installments of $548, which includes principal and interest at the rate of 0% and is due February 2023.

Required principal installments on the note are as follows:

Year	Amount
2023	$ 1,626
	$ 1,626

NOTE E – NOTES PAYABLE (continued)

In addition, Stonebridge borrowed an amount of $33,124 from a local bank on February 24, 2020 to purchase a sprayer. The note is due in monthly installments of $1,001, which includes principal and interest at the rate of 5.5% and is due February 24, 2023.

Required principal installments on the note are as follows:

Year	Amount
2023	$ 1,991
	$ 1,991

In addition, Stonebridge borrowed an amount of $32,203 from a local bank on July 28, 2022 to purchase a new chipper. The note is due in monthly installments of $969, which includes principal and interest at the rate of 5.25% and is due July 2025.

Required principal installments on the note are as follows:

Year	Amount
2023	$ 10,402
2024	10,961
2025	6,653
	$ 28,016

NOTE E – NOTES PAYABLE (continued)

Following is a summary of the notes payable and their maturities.

Required principal installments on the notes are as follows:

Year	Amount
2023	$ 143,151
2024	146,631
2025	149,525
2026	150,285
2027	158,084
Thereafter	557,059
	$ 1,304,735

Secured note, payable to John Deere Financial in monthly installments of $548, including interest at 0%, until maturity in 2023	$ 1,626
Secured note, payable to Community Bank of Texas in monthly installments of $1,000, including interest at 5.5%, until maturity in 2023	1,991
Secured note, payable to Community Bank of Texas in monthly installments of $969, including interest at 5.25%, until maturity in 2025	28,016
Secured note, payable to Community Bank of Texas in monthly installments of $15,891, including interest at 5.0%, until maturity in 2026	1,273,102
Total notes payable	1,304,735
Less: current maturities	(143,151)
Long term portion	$ 1,161,584

NOTE F – FINANCE LEASE OBIGATIONS

In order to finance the acquisition of certain golf course maintenance equipment, Stonebridge has entered into four finance lease obligations with three different finance companies. The leases contain a bargain purchase option at the end of the lease term. These leases are due in various terms with installments ranging from $550 per month to $1,317 per month. The leases include interest at implicit rates ranging from 0% to 5.78%.

The company entered into a finance lease for equipment in May 2020 which matures in 2025. As of December 31, 2022, current maturities are as follows:

December 31,	Gross lease payments	Less amount representing interest	Principal portion
2023	$ 15,281	$ 1,564	$ 13,717
2024	15,281	750	14,531
2025	5,094	61	5,033
	$ 35,656	$ 2,375	$ 33,281

The company entered into a finance lease for equipment in November 2020 which matures in 2025. As of December 31, 2022, current maturities are as follows:

December 31,	Gross lease payments	Less amount representing interest	Principal portion
2023	$ 7,919	$ 680	$ 7,239
2024	7,919	324	7,595
2025	2,639	26	2,613
	$ 18,477	$ 1,030	$ 17,447

NOTE F – FINANCE LEASE OBIGATIONS (continued)

The company entered into a finance lease for equipment in March 2021 which matures in 2026. As of December 31, 2022, current maturities are as follows:

December 31,	Gross lease payments	Less amount representing interest	Principal portion
2023	$ 15,808	$ 2,008	$ 13,800
2024	15,807	1,297	14,510
2025	15,807	551	15,256
2026	2,634	16	2,618
	$ 50,056	$ 3,872	$ 46,184

The company entered into a finance lease for equipment in March 2021 which matures in 2025. As of December 31, 2022, current maturities are as follows:

December 31,	Gross lease payments	Less amount representing interest	Principal portion
2023	$ 8,215	$ 509	$ 7,706
2024	8,215	215	8,000
2025	1,439	6	1,433
	$ 17,869	$ 730	$ 17,139

A summary of the maturities of the principal portions follows.

December 31,	
2023	$ 42,462
2024	44,636
2025	24,335
2026	2,618
	$ 114,051

NOTE G – LONG TERM OPERATING LEASE

The Company entered into a 60 month operating lease in October 2020 for 77 golf carts. The lease expires in September 2025. The monthly payment is $4,839. The right-of-use asset and operating lease liability associated with this lease is $149,526 as of December 31, 2022.

NOTE H—INCOME TAXES

The Association was granted tax exempt status from Federal income tax under Section 501 (c) (4) of the Internal Revenue Service Code. Under this form the organization, all income other than unrelated business income is exempt, including interest income. Information return Form 990 is required to be filed each year. Accordingly, no provision for federal tax is made in the financial statements.

The Association recognizes and discloses its tax positions in accordance with accounting standards which requires the disclosure of uncertain tax positions and related penalties and interest recognized in the financial examination by a taxing authority. Accordingly, no related penalties or interest were recognized in the financial statements.

The tax years ending 2020, 2021, and 2022 are still open to audit.

NOTE I—FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately $146,195 at December 31, 2022, are held in separate accounts and are generally not available for operating purposes.

The Association's board of directors conducted a study during 2021 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE J – SUBSIDIARY ALLOCATION

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.

In 2019, 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 $500,917 were expensed by the Association, and included as revenues of Stonebridge during the years ended December 31, 2022.

NOTE K – 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 L – ADOPTION OF FASB ASC 842

Effective January 1, 20X2, the Association adopted FASB ASC 842, Leases . The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

The Association elected to adopt FASB ASC 842, Leases , using the optional transition method that allows the Association to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of fund balance in the period of adoption, which was zero due to the right-of-use asset and the operating lease liability having the same value of $199,027 at the time of adoption.

The Association elected to adopt the package of practical expedients available under the transition guidance with the new standard. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. The Association also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the right of use assets.

SUPPLEMENTARY INFORMATION

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
December 31, 2022

The Board conducted a study in December 2021 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

Components	Expected Year of Replacement	Estimated Current Replacement Cost
Replaster pool	2023-2024	$ 40,150
Reseal pool deck	2022-2023	15,000
Replace tennis court decks	2019	70,000
Replace perimeter fencing	2021-2024	80,000
Replace lake bulkhead	2025-2026	40,000
Replace bulkheads-ponds	2024	35,000
		$ 280,150