

DRAFT

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

DRAFT

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

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FINANCIAL STATEMENTS
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Independent Auditor's Report

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

I have audited the accompanying balance sheet of The New Property Owners Association of Newport, Inc. as of December 31, 2010 and 2009, and the related statements of revenues and expenses, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Association has not conducted a study to determine the remaining lives and replacement costs of the components of common property. As a result, the Association has not presented the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Ken Skrabanek, CPA
Crosby, Texas
June 3, 2011

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
BALANCE SHEETS
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 178,241	\$ 366,444
Long-term certificates of deposit	23,728	23,360
Assessments receivable, net of allowance for doubtful accounts of \$648,335 and \$612,110	613,785	535,255
Prepaid expenses and other	54,326	35,512
Property and equipment, net of depreciation of \$67,090 and \$52,225	<u>350,226</u>	<u>308,697</u>
 TOTAL ASSETS	 \$ <u>1,220,306</u>	 \$ <u>1,269,268</u>
 LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Accounts payable/accrued expenses	\$ 73,081	\$ 103,889
Prepaid assessments	66,498	118,188
Construction loan	20,670	-
Note payable	<u>102,447</u>	<u>137,269</u>
 TOTAL LIABILITIES	 262,696	 359,346
 Members' Equity	 <u>957,610</u>	 <u>909,922</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ <u>1,220,306</u>	 \$ <u>1,269,268</u>

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

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
STATEMENT OF REVENUES AND EXPENSES
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Homeowner assessments	\$ 1,492,855	\$ 1,504,674
Legal fees billed to owners	133,053	32,549
Late charges	44,427	53,966
Interest income and other	<u>178,657</u>	<u>216,941</u>
TOTAL REVENUES	<u>1,848,992</u>	<u>1,808,130</u>
EXPENSES		
Contract services		
Management fees	114,593	114,593
Legal fees	188,909	146,783
Constable contract/patrol services	227,998	217,685
Audit/consulting	<u>15,995</u>	<u>3,000</u>
	<u>547,495</u>	<u>482,061</u>
Utilities		
Street lights/electricity	180,800	208,704
Other	<u>12,077</u>	<u>9,891</u>
	<u>192,877</u>	<u>218,595</u>
Maintenance and repairs		
Grounds maintenance	206,820	209,295
Pool operations	70,705	72,470
Mosquito fogging	22,623	22,466
Major repairs and maintenance	110,580	47,557
Hurricane Ike repairs	-	53,399
General maintenance	50,034	65,414
Other amenities	<u>52,390</u>	<u>73,642</u>
	<u>513,152</u>	<u>544,243</u>
Administrative		
Provision for bad debts	193,419	165,907
Insurance	42,873	45,869
Newsletter/community events	76,860	95,024
Payroll costs	68,993	-
Other	<u>165,635</u>	<u>167,315</u>
	<u>547,780</u>	<u>474,115</u>
TOTAL EXPENSES	<u>1,801,304</u>	<u>1,719,014</u>
REVENUES OVER (UNDER) EXPENSES	\$ <u><u>47,688</u></u>	\$ <u><u>89,116</u></u>

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

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
 STATEMENT OF CHANGES IN MEMBERS' EQUITY
 For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Balance, beginning of period	\$ 909,922	\$ 820,806
Revenues over (under) expenses	<u>47,688</u>	<u>89,116</u>
Balance, end of period	\$ <u>957,610</u>	\$ <u>909,922</u>

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

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ 47,688	\$ 89,116
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Provision for bad debts	193,419	155,907
Depreciation expense	28,041	22,819
(Increase) decrease in assets:		
Certificates of deposit	(368)	(1,382)
Assessments and other receivables	(271,949)	(139,246)
Prepaid expenses and other	(18,814)	(20,344)
Increase (decrease) in liabilities:		
Accounts payable/accrued expenses	(30,808)	26,066
Prepaid assessments	(51,690)	12,127
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(104,481)</u>	<u>155,063</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from construction loan	20,670	-
Principal payments on note payable	(34,822)	(38,405)
	<u>(14,152)</u>	<u>(38,405)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(69,570)	
Redemption of certificates of deposit	-	75,000
	<u>(69,570)</u>	<u>75,000</u>
NET INCREASE (DECREASE) IN CASH	(188,203)	191,658
CASH AND CASH ITEMS, BEGINNING OF YEAR	<u>366,444</u>	<u>174,786</u>
CASH AND CASH ITEMS, END OF YEAR	\$ <u><u>178,241</u></u>	\$ <u><u>366,444</u></u>
Supplemental disclosures:		
Income taxes paid	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
Interest paid	\$ <u><u>7,576</u></u>	\$ <u><u>10,684</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
December 31, 2010 and 2009

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.

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.

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.

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.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

Summary of Significant Accounting Policies (Continued)

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code.

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 Association considers investments with a maturity of three months or less to be cash equivalents.

Note 3 - Concentrations

The Association maintains cash accounts and certificates of deposit, which at times, may exceed federally insured limits. The Association 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 Contract

Through October 31, 2010, the Association was managed by Houston Community Management (the "manager"). For its services, the manager was paid a monthly fee of \$11,459, plus reimbursement for certain administrative costs. Effective November 1, 2010, the Association became 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.).

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

Allowance for Doubtful Accounts (continued)~

The Association, along with certain governmental entities, have entered into an agreement with Newport Fund, L.L.C. (NFLLC), an affiliate of Rampart Properties, L.P., whereby NFLLC agreed to assist the Association and the governmental entities in restoring certain non tax-paying entities to active tax-paying status. In this regard, certain properties with delinquent maintenance assessments are assigned to NFLLC for collection effort. Although the Fund is still in existence, it has been generally inactive.

Note 6 - Future Major Repairs and Replacements

The Association has not conducted a study to determine the remaining useful lives or replacement costs of the components of common property. As a result, the Association has not presented the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Actual expenditures accumulated 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.

Note 7 - Note Payable

In May, 2008, the Association borrowed \$195,343 from a local bank to finance the acquisition of approximately 13 acres of land located within the Newport subdivision. The note is due in sixty equal monthly installments of \$3,854, and bears interest at the rate of 6.75%. The note is secured by approximately 27 acres of land located within the Newport subdivision. Required principal installments on this obligation are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 40,578
2012	43,403
2013	18,466

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

Note 8 - Construction Loan

In 2010, the Association received a commitment from Community Bank of Texas for a construction loan to be used to construct the on-site office of the Association. The total commitment was for an amount of \$185,000. At December 31, 2010, an amount of \$20,670 had been drawn on the loan. Subsequent to December 31, 2010, the loan was converted to a permanent mortgage. The permanent mortgage bears interest at the rate of 6.25% and is due in 96 monthly installments of \$2,732.79. The loan is secured by second liens on various property owned by the Association.

Note 9 - Fair Value of Financial Instruments

The Association'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.