

DRAFT

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

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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., which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of revenues and expenses, changes in members' equity, and 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



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effectiveness of the entity's 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. as of December 31, 2015 and 2014, 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.

Other Matter

Management has omitted the supplementary information on future repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by the missing information.

Ken Skrabanek, CPA
Crosby, Texas
April 11, 2016

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
BALANCE SHEETS
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 951,081	\$ 814,635
Long-term certificates of deposit	24,098	24,050
Assessments receivable, net of allowance for doubtful accounts of \$494,180 and \$541,292	637,087	697,824
Prepaid expenses and other	47,776	46,488
Due from related party	87,247	-
Due from Newport Golf Partners	55,375	-
Property and equipment, net of depreciation of \$289,513 and \$249,651	<u>423,887</u>	<u>434,977</u>
 TOTAL ASSETS	 \$ <u>2,226,551</u>	 \$ <u>2,017,974</u>
 LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Accounts payable/accrued expenses	\$ 82,594	\$ 60,852
Prepaid assessments	247,282	249,548
Notes payable	<u>196,018</u>	<u>291,909</u>
 TOTAL LIABILITIES	 525,894	 602,309
 Members' Equity	 <u>1,700,657</u>	 <u>1,415,665</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ <u>2,226,551</u>	 \$ <u>2,017,974</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
Homeowner assessments	\$ 1,660,320	\$ 1,612,800
Late charges and other	<u>397,814</u>	<u>408,995</u>
TOTAL REVENUES	<u>2,058,134</u>	<u>2,021,795</u>
EXPENSES		
Contract services		
Legal fees	21,758	980
Sheriff contract/patrol services	296,342	253,388
Audit/consulting	<u>3,350</u>	<u>3,300</u>
	<u>321,450</u>	<u>257,668</u>
Utilities		
Street lights/electricity	234,257	227,732
Other	<u>20,014</u>	<u>19,049</u>
	<u>254,271</u>	<u>246,781</u>
Maintenance and repairs		
Grounds maintenance	240,137	239,909
Pool operations	70,930	73,353
Mosquito fogging	18,376	22,998
Major repairs and maintenance	132,125	109,320
General maintenance	46,342	74,145
Other amenities	<u>74,900</u>	<u>45,317</u>
	<u>582,810</u>	<u>565,042</u>
Administrative		
Provision for bad debts	-	318,101
Insurance	57,882	54,832
Newsletter/community events	54,716	46,370
Payroll costs	358,474	313,331
Other	<u>143,539</u>	<u>160,068</u>
	<u>614,611</u>	<u>892,702</u>
TOTAL EXPENSES	<u>1,773,142</u>	<u>1,962,193</u>
REVENUES OVER (UNDER)		
EXPENSES	\$ <u>284,992</u>	\$ <u>59,602</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Balance, beginning of period	\$ 1,415,665	\$ 1,356,063
Revenues over (under) expenses	<u>284,992</u>	<u>59,602</u>
Balance, end of period	\$ <u>1,700,657</u>	\$ <u>1,415,665</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ 284,992	\$ 59,602
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Provision for bad debts	-	318,101
Depreciation expense	39,862	45,502
(Increase) decrease in assets:		
Certificates of deposit	(48)	(54)
Assessments and other receivables	60,737	(179,482)
Prepaid expenses and other	(1,288)	(3,146)
Due from related party	(87,247)	-
Due from Newport Golf Partners	(55,375)	-
Increase (decrease) in liabilities:		
Accounts payable/accrued expenses	21,742	(6,910)
Prepaid assessments	<u>(2,266)</u>	<u>3,890</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>261,109</u>	<u>237,503</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	<u>(95,891)</u>	<u>(127,663)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(28,772)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	136,446	109,840
CASH AND CASH ITEMS, BEGINNING OF YEAR	<u>814,635</u>	<u>704,795</u>
CASH AND CASH ITEMS, END OF YEAR	\$ <u>951,081</u>	\$ <u>814,635</u>
Supplemental disclosures:		
Income taxes paid	\$ <u>-</u>	\$ <u>-</u>
Interest paid	\$ <u>15,581</u>	\$ <u>23,871</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, 2015 and 2014

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, 2015 and 2014

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

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, 2015, an allowance of \$494,180 has been established for accounts which are considered doubtful of collection.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 12.

At December 31, 2015, the Association did not have a separate bank or other account designated as a reserve account. Subsequent to December 31, 2015, the Association deposited \$200,000 into a separate account designated as a reserve account. 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 - Notes Payable

The Association has a note payable to a local bank in the amount of \$196,018. The proceeds from the note were generally used to fund major repairs and replacements to the Association's common property. The note is secured by approximately 27 acres of land located within the Newport subdivision. The note was refinanced in January, 2016. The note is now due in 59 monthly installments of \$1,496, including principal and interest, with a final payment of principal and interest due on February 22, 2021. The note bears interest at the rate of 5%.

The Association has followed the practice of making additional principal payments on the obligation as it has the ability to do so.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

Required principal installments on the note described above, based on the contractual required monthly payments (plus an additional principal payment made in January, 2016, are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 15,626
2017	9,013
2018	9,480
2019	9,972
2020	10,468
Thereafter	141,459

Note 8 - 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.

Note 9 - Date of Management's Review

Subsequent events were evaluated through April 11, 2016, which is the date the financial statements were available to be issued.

Note 10 - Subsequent Event

In January, 2016 Stonebridge at Newport, LLC ("Stonebridge") purchased all the personal property and intangible property related to the Newport Golf Club and Conference Center. Such property included an eighteen hole golf course, the pro shop, conference center, and country club, and all furniture and fixtures related thereto. Stonebridge is a corporation and is wholly owned by the Association. Stonebridge intends to operate the golf course and conference center, subject to oversight by the Association. At December 31, 2015, the Association had a receivable from Stonebridge in the amount of \$87,247 for amounts advanced in relation to the golf club purchase. In addition the Association had a receivable from the seller in the amount of \$55,375, which was repaid when the sale and purchase occurred.

SUPPLEMENTARY INFORMATION

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
December 31, 2015

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