

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

FINANCIAL STATEMENTS

For the Years Ended December 31, 2017 and 2016

**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, 2017 and 2016, 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



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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. And Subsidiary as of December 31, 2017 and 2016, 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.

Ken Skrabanek, CPA

Ken Skrabanek, CPA
Crosby, Texas
September 12, 2018

**THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
December 31, 2017 and 2016**

	2017				2016			
	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	\$510,554	\$629,882	\$-	\$1,140,436	\$258,962	\$4,486	\$-	\$263,448
Certificate of deposits	237,894	-	-	237,894	235,723	-	-	235,723
Assessments receivable, net	1,109,355	-	-	1,109,355	791,359	-	-	791,359
Inventory	-	10,000	-	10,000	-	10,000	-	10,000
Prepaid expenses	39,736	-	-	39,736	29,942	-	-	29,942
Investment in Stonebridge at Newport, Inc.	87,247	-	(87,247)	-	87,247	-	(87,247)	-
Advances to Stonebridge at Newport, Inc.	1,347,905	-	(1,347,905)	-	706,910	-	(706,910)	-
Utility deposit	-	2,351	-	2,351	-	2,351	-	2,351
Property and equipment, net	449,059	2,090,097	-	2,539,156	484,319	2,138,723	-	2,623,042
Total Assets	\$3,781,750	\$2,732,330	(\$1,435,152)	\$5,078,928	\$2,594,462	\$2,155,560	(\$794,157)	\$3,955,865
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable/accrued expenses	\$195,217	31,805	\$-	277,022	\$84,305	58,334	\$-	\$142,639
Prepaid assessments	277,574	-	-	277,574	297,728	-	-	297,728
Advances from Newport	-	1,347,905	(1,347,905)	-	-	706,910	(706,910)	-
Deferred insurance proceeds	-	603,928	-	603,928	-	-	-	-
Notes payable	171,398	1,649,576	-	1,820,974	180,410	1,736,103	-	1,916,513
Capital lease obligation	-	182,145	-	182,145	-	232,898	-	232,898
Total Liabilities	644,189	3,865,359	(1,347,905)	3,161,643	562,443	2,734,245	(706,910)	2,589,778
Fund balances/stockholder's equity	3,137,561	(1,133,029)	(87,247)	1,917,285	2,032,019	(578,685)	(87,247)	1,366,087
Total Liabilities and Fund Balances	\$3,781,750	\$2,732,330	(\$1,435,152)	\$5,078,928	\$2,594,462	\$2,155,560	(\$794,157)	\$3,955,865

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, 2017 and 2016

	2017			2016		
	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
REVENUES						
Homeowner assessments	\$2,275,697	\$-	\$-	\$2,275,697	\$-	\$1,712,704
Late charges and other	669,264	21,248	-	690,512	18,770	472,497
Insurance proceeds	-	299,740	-	299,740	-	-
Event revenues	-	174,103	-	174,103	-	229,386
Galley Grill	-	141,673	-	141,673	-	154,768
Golf operations	-	332,712	-	332,712	-	320,894
Total Revenues	2,944,961	969,476	-	3,914,437	-	2,890,249
COST OF SALES						
Events	-	58,716	-	58,716	-	65,753
Galley Grill	-	129,160	-	129,160	-	109,258
Golf operations	-	285,936	-	285,936	-	204,856
Total Cost of Sales	-	473,812	-	473,812	-	379,867
NET BEFORE OTHER EXPENSES	2,944,961	495,664	-	3,440,625	-	2,510,382
ADMINISTRATIVE AND OTHER EXPENSES						
Sheriff contract/patrol services	268,600	-	-	268,600	-	291,799
Other contract services	37,566	-	-	37,566	-	32,082
Utilities	277,178	63,855	-	341,033	-	329,825
Grounds maintenance	263,141	21,220	-	284,361	-	302,453
Pool operations	73,240	-	-	73,240	-	99,448
Major repairs and maintenance	-	-	-	0	-	131,425
General maintenance and repairs	110,466	44,370	-	154,836	-	173,081
Insurance and taxes	63,335	111,042	-	174,377	-	160,684
Newsletter/community events	46,423	-	-	46,423	-	56,355
Other administrative costs	143,522	35,611	-	179,133	-	217,805
Interest expense	8,937	95,345	-	104,282	-	101,318
Depreciation expense	35,259	73,964	-	109,223	-	72,073
Contingencies/litigation	139,345	-	-	139,345	-	-
Payroll costs	372,407	604,801	-	977,208	-	876,604
Total Expenses	1,839,419	1,050,008	-	2,889,427	-	2,844,952
Revenues Over (Under) Expenses	1,105,542	(554,344)	-	551,198	-	(334,570)
Fund Balance/Retained earnings, beginning of year	2,032,019	(576,685)	-	1,455,334	-	1,700,657
Fund Balance/Retained earnings, end of year	\$3,137,561	(\$1,133,029)	\$-	\$2,004,532	\$-	\$1,366,087

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	551,198	(334,570)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation expense	109,223	72,073
Bad debt allowance reduction	(192,376)	-
(Increase) decrease in assets:		
Certificates of deposit	(2,171)	(1,625)
Assessments receivable	(125,620)	(154,272)
Prepaid expenses and other	(9,794)	5,483
Due from related party	-	87,247
Due from Newport Golf Partners	-	55,375
Increase (decrease in liabilities)		
Accounts payable	134,383	60,045
Deferred insurance proceeds	603,928	-
Prepaid assessments	(20,154)	50,446
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>1,048,617</u>	<u>(159,798)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	2,000,000
Principal payments on note payable	(95,539)	(279,505)
Proceeds from capital lease obligation	-	269,451
Principal payments on capital lease	(50,753)	(36,553)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(146,292)</u>	<u>1,953,393</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(25,337)	(2,271,228)
Purchase of certificate of deposit	-	(210,000)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(25,337)</u>	<u>(2,481,228)</u>
NET INCREASE (DECREASE) IN CASH	876,988	(687,633)
CASH, BEGINNING OF YEAR	<u>263,448</u>	<u>951,081</u>
CASH, END OF YEAR	<u><u>1,140,436</u></u>	<u><u>263,448</u></u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid	<u>\$-</u>	<u>\$-</u>
Interest paid	<u>\$104,282</u>	<u>\$101,318</u>

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016

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, 2017, Stonebridge had a net operating loss for federal income tax purposes in the amount of approximately \$1,219,000.

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, 2017 and 2016

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, 2017, an allowance of \$180,593 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 December 31, 2017, the Association did not have a separate bank or other 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.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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. Such operating losses amounted to \$665,000 for the year ended December 31, 2016 and \$554,000 for the year ended December 31, 2017. Continued operations of the Club for these years was generally dependent on advances from the Association. Such operating losses have continued through the first eight months of 2018, and amount to approximately \$437,000. Through that date the Association has advanced an additional \$484,000 to supplement the operations of the Club. Continued operation of the Club is dependent on an improvement in operating results and/or continued advances of funds from the Association.

Note 8 - Note 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 February 22, 2021. The loan is secured by substantially all of the assets of Stonebridge and by certain property and assessments of the Association.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Required principal installments on the note described above, based on the contractual required monthly payments, are as follows:

<u>Year</u>	<u>Amount</u>
2018	102,041
2019	107,262
2020	112,749
2021	1,498,922

Note 9- Capital Lease Obligation

In order to finance the acquisition of certain golf course maintenance equipment, Stonebridge entered into a capital lease obligation with a finance company. The lease contains a bargain purchase option at the end of the lease term. The capitalized cost of the associated equipment was \$269,452. The lease is due in sixty monthly installments of \$5,040, which includes interest at an implicit rate of 4.6%.

Required principal installments on the capital lease are as follows:

<u>Year</u>	<u>Amount</u>
2018	53,157
2019	55,674
2020	58,311
2021	15,003

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 10 - Property and Equipment

Property and equipment consists of the following:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Land	\$ 836,000	\$ 836,000
Buildings and improvements	1,514,488	1,514,488
Other equipment	<u>659,477</u>	<u>634,140</u>
Total	3,009,965	2,984,628
Less-Accumulated depreciation	<u>470,809</u>	<u>361,586</u>
Net property and equipment	\$ <u>2,539,156</u>	\$ <u>2,623,042</u>

Depreciation expenses amounted to \$109,223 and \$72,073 for the years ended December 31, 2017 and 2016.

Note 11 - 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 12 - Date of Management's Review

Subsequent events were evaluated through September 12, 2018, 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, 2017

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