

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

FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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

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AND SUBSIDIARY
FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidating Balance Sheet	3
Consolidating Statement of Revenues and Expenses and Changes in Fund Balances/Retained Earnings	4
Consolidated Statement of Cash Flows	5
Notes to Financial Statements	6
Supplementary Information on Future Major Repairs and Maintenance (unaudited)	13



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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, 2018 and 2017, 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 effectiveness of the entity's



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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, 2018 and 2017, 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
August 5, 2019

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
December 31, 2018 and 2017

	2018			2017		
	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.
ASSETS					Eliminations	Consolidated Total
Cash	\$348,269	\$14,277	\$-	\$362,546	\$510,554	\$629,882
Certificate of deposits	240,038	-	-	240,038	237,894	-
Assessments receivable, net	944,835	-	-	944,835	1,109,355	-
Other receivables	-	18,901	-	18,901	-	-
Inventory	-	34,179	-	34,179	-	10,000
Prepaid expenses	35,362	-	-	35,362	39,736	-
Investment in Stonebridge at Newport, Inc.	87,247	-	(87,247)	-	87,247	-
Advances to Stonebridge at Newport, Inc.	2,444,771	-	(2,444,771)	-	1,347,905	-
Utility deposit	-	2,351	-	2,351	-	2,351
Property and equipment, net	414,114	2,148,514	-	2,562,628	449,059	2,090,097
Total Assets	\$4,514,636	\$2,218,222	(\$2,532,018)	\$4,200,840	\$3,781,750	\$2,732,330
					(\$1,435,152)	\$5,078,928
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable/accrued expenses	\$263,109	27,544	\$-	290,653	\$195,217	81,805
Prepaid assessments	313,504	-	-	313,504	277,574	-
Advances from Newport	-	2,444,771	(2,444,771)	-	-	1,347,905
Deferred insurance proceeds	-	-	-	-	-	603,928
Notes payable	161,917	1,591,504	-	1,753,423	171,398	1,649,576
Capital lease obligations	-	183,897	-	183,897	-	182,145
Total Liabilities	738,530	4,247,517	(2,444,771)	2,541,277	644,189	3,865,359
Fund balances/stockholder's equity	3,776,105	(2,029,295)	(87,247)	1,659,563	3,137,561	(1,133,029)
Total Liabilities and Fund Balances	\$4,514,636	\$2,218,222	(\$2,532,018)	\$4,200,840	\$3,781,750	\$2,732,330
					(\$1,435,152)	\$5,078,928

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, 2018 and 2017

	2018			2017				
	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	\$2,303,271	\$-	\$-	\$2,303,271	\$2,275,697	\$-	\$-	\$2,275,697
Late charges and other	504,166	29,067	-	533,233	689,264	21,248	-	690,512
Insurance proceeds	-	327,943	-	327,943	-	299,740	-	299,740
Event revenues	-	296,934	-	296,934	-	174,103	-	174,103
Galley Grill	-	187,072	-	187,072	-	141,673	-	141,673
Golf operations	-	386,375	-	386,375	-	332,712	-	332,712
Total Revenues	2,807,437	1,227,391	-	4,034,828	2,944,961	969,476	-	3,914,437
COST OF SALES								
Events	-	141,501	-	141,501	-	58,716	-	58,716
Galley Grill	-	199,461	-	199,461	-	129,160	-	129,160
Golf operations	-	478,007	-	478,007	-	285,936	-	285,936
Total Cost of Sales	-	818,969	-	818,969	-	473,812	-	473,812
NET BEFORE OTHER EXPENSES	2,807,437	408,422	-	3,215,859	2,944,961	495,664	-	3,440,625
ADMINISTRATIVE AND OTHER EXPENSES								
Sheriff contract/patrol services	275,320	-	-	275,320	268,600	-	-	268,600
Other contract services	33,155	-	-	33,155	37,566	-	-	37,566
Utilities	303,307	66,232	-	369,539	277,178	63,855	-	341,033
Grounds maintenance	289,852	24,307	-	314,159	263,141	21,220	-	284,361
Pool operations	76,944	-	-	76,944	73,240	-	-	73,240
Major repairs and maintenance	66,595	-	-	66,595	-	-	-	-
General maintenance and repairs	121,847	58,271	-	180,118	110,466	44,370	-	154,836
Insurance and taxes	76,000	96,599	-	172,599	63,335	111,042	-	174,377
Newsletter/community events	53,797	-	-	53,797	46,423	-	-	46,423
Bad debt expense	165,884	-	-	165,884	-	-	-	-
Other administrative costs	140,986	97,095	-	238,081	143,522	35,611	-	179,133
Interest expense	8,490	81,834	-	90,324	8,937	95,345	-	104,282
Depreciation expense	35,259	86,679	-	121,938	35,259	73,964	-	109,223
Contingencies/litigation	99,425	-	-	99,425	139,345	-	-	139,345
Payroll costs	422,032	783,671	-	1,215,703	372,407	604,601	-	977,008
Total Expenses	2,168,893	1,304,688	-	3,473,581	1,839,419	1,050,008	-	2,889,427
Revenues Over (Under) Expenses	638,544	(896,266)	-	(257,722)	1,105,542	(554,344)	-	551,198
Fund Balance/Retained earnings, beginning of year	3,137,561	(1,133,029)	-	2,004,532	2,032,019	(578,685)	-	1,453,334
Fund Balance/Retained earnings, end of year	\$3,776,105	(\$2,029,295)	\$-	\$1,746,810	\$3,137,561	(\$1,133,029)	\$-	\$2,004,532

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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	(257,722)	551,198
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation expense	121,938	109,223
Bad debt allowance (reduction) expense	165,884	(192,376)
(Increase) decrease in assets:		
Certificates of deposit	(2,144)	(2,171)
Assessments receivable	(1,364)	(125,620)
Prepaid expenses and other	(38,706)	(9,794)
Due from related party	-	-
Due from Newport Golf Partners	-	-
Increase (decrease in liabilities)		
Accounts payable	13,631	134,383
Deferred insurance proceeds	(603,928)	603,928
Prepaid assessments	35,930	(20,154)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(566,481)</u>	<u>1,048,617</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	33,124	-
Principal payments on note payables	(100,675)	(95,539)
Proceeds from capital lease obligation	(79,923)	-
Principal payments on capital lease	81,475	(50,753)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(65,999)</u>	<u>(146,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(145,410)	(25,337)
Purchase of certificate of deposit	-	-
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(145,410)</u>	<u>(25,337)</u>
NET INCREASE (DECREASE) IN CASH	(777,890)	876,988
CASH, BEGINNING OF YEAR	<u>1,140,436</u>	<u>263,448</u>
CASH, END OF YEAR	<u><u>362,546</u></u>	<u><u>1,140,436</u></u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid	<u>\$-</u>	<u>\$-</u>
Interest paid	<u>\$90,324</u>	<u>\$104,282</u>

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017

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, 2018, Stonebridge had a net operating loss for federal income tax purposes in the amount of \$2,116,543.

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.

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018, an allowance of \$327,226 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, 2018, 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, 2018 and 2017

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 \$896,000 for the year ended December 31, 2018 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 seven months of 2019, Through that date the Association has advanced in excess of an additional \$500,000 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.

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 is to provide management services, and to manage the day to day affairs of the Club. The agreement commenced on October 28, 2018, and expires on December 23, 2023. The agreement provides for two three year extensions of the agreement. The base management fee under the agreement is \$8,000 per month. In addition, BCG may earn an incentive management fee depending on improvements in the operating results for the Club.

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

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

<u>Year</u>	<u>Amount</u>
2019	\$ 106,669
2020	112,126
2021	1,510,189

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 is due in monthly installments of interest only until February 24, 2020, when all outstanding principal and interest are due.

Note 9- 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 4.6%.

Required principal installments on the capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 74,864
2020	77,499
2021	21,156
2022	8,528
2023	1,650

THE NEW PROPERTY OWNERS ASSOCIATION OF NEWPORT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 10 - Property and Equipment

Property and equipment consists of the following:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Land	\$ 836,000	\$ 836,000
Buildings and improvements	1,514,488	1,514,488
Other equipment	<u>804,887</u>	<u>659,477</u>
Total	3,155,375	3,009,965
Less-Accumulated depreciation	<u>592,747</u>	<u>470,809</u>
Net property and equipment	\$ <u>2,562,628</u>	\$ <u>2,539,156</u>

Depreciation expense amounted to \$121,938 and \$109,223 for the years ended December 31, 2018 and 2017.

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 August 5, 2019, 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, 2018

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