

**LAKE ROCKPORT ESTATES
PROPERTY OWNERS' ASSOCIATION**

**Financial Statements
and
Independent Auditor's Report**

**As of and for the Years Ended
December 31, 2025 and 2024**



COMMITTED. EXPERIENCED. TRUSTED.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

PARTNERS

MICHAEL L. SMITH, CPA
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ROBERT D. WOOD, CPA
AARON R. HIXSON, CPA
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JANICE ANDERSON, EA
TROY F. NILSON, CPA

To the Board of Directors
Lake Rockport Estates Property Owners Association
Coalville, Utah

Report on the Financial Statements

Opinion

We have audited the financial statements of Lake Rockport Estates Property Owners Association (the Association), which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of revenues, expenses, and changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years 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 (GAAS). 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 Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Association'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on page 14 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, 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.

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 inquires 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.

HBME, LLC

September 11, 2026
Bountiful, Utah

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION

Balance Sheets

December 31, 2025 and 2024

ASSETS

Current assets:

Cash, unrestricted	\$ 725,393	\$ 755,082
Cash, restricted	97,465	68,661
Dues receivable	<u>642,938</u>	<u>279,867</u>

Total current assets	1,465,796	1,103,610
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Property and equipment:

Land	157,490	157,490
Buildings and improvements	229,021	229,021
Maintenance equipment	36,951	36,951
Infrastructure	<u>1,716,278</u>	<u>1,716,278</u>
	2,139,740	2,139,740

Less: accumulated depreciation	<u>(1,349,352)</u>	<u>(1,263,186)</u>
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Property and equipment, net	<u>790,388</u>	<u>876,554</u>
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Total assets	<u>\$ 2,256,184</u>	<u>\$ 1,980,164</u>
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LIABILITIES AND MEMBERS' EQUITY

Current liabilities:

Accounts payable	\$ 11,903	\$ 27,755
Accounts payable - construction	-	15,375
Retainage payable	1,000	4,000
Prepaid association assessments	210	16,936
Contract liabilities - association assessments	642,938	279,867
Notes payable	<u>150,893</u>	<u>150,916</u>

Total current liabilities	806,944	494,849
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Notes payable:

USDA	880,153	838,681
Utah State	<u>293,000</u>	<u>323,000</u>

Total liabilities	<u>1,980,097</u>	<u>1,656,530</u>
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Members' equity:

Net investment of fixed assets	(533,658)	(436,043)
Restricted for capital repairs and replacements	54,147	25,780
Unrestricted	<u>755,598</u>	<u>733,897</u>

Total members' equity	<u>276,087</u>	<u>323,634</u>
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Total liabilities and members' equity	<u>\$ 2,256,184</u>	<u>\$ 1,980,164</u>
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The accompanying notes are an integral part of these financial statements.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Statements of Revenues, Expenses, and Changes in Members' Equity
For the Years Ended December 31, 2025 and 2024

REVENUES

Regular assessments	\$ 142,456	\$ 219,945
Capital improvement assessments	164,905	169,489
Owner assessed fees and charges	6,526	11,887
Interest income and collection charges	1,005	2,389
Other income	24,500	43,250
	<hr/>	<hr/>
Total revenues	339,392	446,960

EXPENSES

Repairs and maintenance:		
General repairs and supplies	31,079	43,439
Testing expense	11,355	14,187
Water system maintenance	48,279	61,472
Road maintenance	24,362	11,428
Loss on abandonment of construction in progress	52,261	1,182,078
Miscellaneous expense	750	3,000
	<hr/>	<hr/>
Total repairs and maintenance	168,086	1,315,604
General and administrative:		
Management fees	16,800	14,400
Office expense	17,176	3,462
Insurance expense	21,711	15,359
Professional fees expense	9,193	19,623
Taxes and licenses	1,464	1,154
Utilities expense	25,896	23,144
Depreciation expense	86,166	208,218
	<hr/>	<hr/>
Total general and administrative	178,406	285,360
Interest and other financial:		
Interest on notes payable	40,447	33,125
Other financial expense	-	5,861
	<hr/>	<hr/>
Total Interest and other financial	40,447	38,986
	<hr/>	<hr/>
Total expenses	386,939	1,639,950
	<hr/>	<hr/>
Excess of expenses over revenues	(47,547)	(1,192,990)
Members' equity, beginning of year	323,634	1,516,624
	<hr/>	<hr/>
Members' equity, end of year	\$ 276,087	\$ 323,634

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

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Statements of Cash Flows
For the Years Ended December 31, 2025 and 2024

OPERATING ACTIVITIES

Excess of expenses over revenues	\$ (47,547)	\$(1,192,990)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	86,166	208,218
Loss on abandonment of construction in progress	-	1,182,078
(Increase) decrease in:		
Member assessment receivable	(363,071)	(279,867)
Increase (decrease) in:		
Accounts payable	(15,852)	13,858
Accounts payable - construction	(15,375)	13,827
Retainage payable	(3,000)	4,000
Accrued interest payable	-	-
Prepaid association assessments	(16,726)	12,332
Contract liabilities - association assessments	363,071	279,867
Net cash from operating activities	<u>(12,334)</u>	<u>241,323</u>

INVESTING ACTIVITIES

Purchases of property and equipment	<u>-</u>	<u>(61,503)</u>
Net cash from investing activities	<u>-</u>	<u>(61,503)</u>

FINANCING ACTIVITIES

Principal payments on notes payable	(147,421)	(119,457)
Cash received from note payable	158,870	-
Net cash from financing activities	<u>11,449</u>	<u>(119,457)</u>
Net change in cash	<u>(885)</u>	<u>60,363</u>
Cash and cash equivalents, beginning of year	<u>823,743</u>	<u>763,380</u>
Cash and cash equivalents, end of year	<u>\$ 822,858</u>	<u>\$ 823,743</u>
Cash, as presented on the balance sheet:		
Cash, unrestricted	\$ 725,393	\$ 755,082
Cash, restricted	97,465	68,661
	<u>\$ 822,858</u>	<u>\$ 823,743</u>
Non-cash disclosures:		
Fixed assets financed with notes payable	<u>\$ -</u>	<u>\$ 1,052,054</u>

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

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

1. ORGANIZATION

Lake Rockport Estates Owners Association (the Association) was incorporated in 1972 as a Utah nonprofit corporation located approximately thirteen miles south of Coalville, Utah. The Association is responsible for the operation and maintenance of the common property within a development of lots requiring annual assessments prior to the beginning of each fiscal year. Deferred assessment revenue includes assessments for 325 lots as of December 31, 2025, respectively.

Any person or entity who is a recorded owner of a lot within the development that is subject to assessment by the Association is a member of the Association. Members are entitled to one vote for each lot owned.

The Association is managed by a Board of Directors (the Board), who also approves and implements an annual financial budget from which the Association operates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Association have been prepared on the accrual basis of accounting and follow generally accepted accounting principles in the United States of America (U.S. GAAP) for Common-Interest Real Estate Associations prescribed by the Financial Accounting Standards Board's (FASB) Accounting Codification (ASC) 972, *Common Interest Realty Associations*.

Member Assessments

Association members are subject to annual assessments used to provide funds for operating expenses and major repairs and future replacements.

Annual assessments are determined and approved by the Board each year. The Board has the authority to increase or decrease the assessment each year. However, the assessments may not be increased by more than 10 percent over a previous year without a two-thirds vote of the members of the Association. The Association may levy a special assessment for a specific need that cannot be satisfied by the annual assessment with a two-thirds majority vote of the members.

Assessments receivable at the balance sheet date represents amounts due from lot owners. If the assessment is not paid within ninety days after the due date, the assessment bears interest from the date of delinquency at the rate of 12 percent per annum, and the Association may bring an action against the owner obligated to pay the assessment or foreclose the lien against the property. Allowances are provided for uncollectible accounts and are adjusted by the Board when deemed necessary.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2025 and 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements, in accordance with U.S. GAAP, 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. Accordingly, actual results could differ from those estimates.

Common Property

Real property that consists of common areas recorded on a plat, acquired from the developer, and related improvements to such property are not included in the Association's financial statements because those properties and improvements cannot be disposed of without two thirds majority consent of the individual lot owners and a plat amendment. The Association records real property and personal property to which it has title and control at its cost as an asset on the Association's balance sheet.

Property and Equipment

As a general practice the Association capitalizes expenditures for property and equipment in excess of \$5,000. 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. Maintenance and Repairs which neither materially add to the value of the property and equipment nor appreciably prolong its life are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives (Years)</u>
Machinery and equipment	5 - 15
Well improvements	25

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2025 and 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Association considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit, with original maturity dates of 90 days or less, as cash and cash equivalents. Restricted cash as reported on the balance sheet is restricted for building bond deposits and future major repairs and replacement costs as described in note 6.

Restricted cash balances are as follows, as of December 31, :

	2025	2024
Primary Reserve	\$ 83,360	\$ 64,661
Security Deposit	14,105	4,000
Restricted cash balance	\$ 97,465	\$ 68,661

Fair Value of Financial Instruments

Unless otherwise indicated, fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts.

Concentration of Credit Risk

The financial instruments that potentially subject the Association to credit risk consist principally of cash deposits in bank accounts, investments, and assessments receivable. In the event that the property owners did not comply with the terms of the Covenants, Conditions, and Restrictions, and collection efforts by the Association were unsuccessful; the Association could incur a loss equal to the amount due.

The Association maintains cash and cash equivalents and investments with local financial institutions. Checking and savings accounts with banks are secured by the Federal Deposit Insurance Corporation, up to \$250,000, at each bank. To date, the Association has not experienced a loss or lack of access to its invested cash; however, no assurance can be provided that access to the Association's cash will not be impacted by adverse conditions in financial markets.

Revenue Recognition and Deferred Revenue

Members are billed for the annual assessment on November 1st for the following year. Member assessments are considered past due if not received within 90 days. Member assessments made in January are used for the following fiscal year, resulting in deferred assessment revenues on the balance sheet. As of December 31, 2025, the amount of deferred assessment revenue was \$210.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2025 and 2024

3. MEMBER ASSESSMENTS RECEIVABLE

Member assessments receivable represents assessments due, late fees charged on overdue accounts, and other fees levied by the Association. At December 31, 2025, gross member assessments receivable was \$642,938. No allowance for doubtful accounts was recorded at December 31, 2025 related to regular property owner assessments.

4. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended December 31, 2025:

	<u>01/01/25</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/25</u>
Property and equipment, not depreciated:				
Land	<u>\$ 157,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,490</u>
Property and equipment, depreciated:				
Machinery and equipment	<u>265,792</u>	<u>-</u>	<u>-</u>	<u>265,792</u>
Well improvements	<u>1,716,278</u>	<u>-</u>	<u>-</u>	<u>1,716,278</u>
Total property and equipment, depreciated	<u>1,982,070</u>	<u>-</u>	<u>-</u>	<u>1,982,070</u>
Accumulated depreciation:				
Machinery and equipment	<u>(162,716)</u>	<u>(13,748)</u>	<u>-</u>	<u>(176,464)</u>
Well improvements	<u>(1,100,470)</u>	<u>(72,418)</u>	<u>-</u>	<u>(1,172,888)</u>
Total accumulated depreciation	<u>(1,263,186)</u>	<u>(86,166)</u>	<u>-</u>	<u>(1,349,352)</u>
Total property and equipment, depreciated (net)	<u>718,884</u>	<u>(86,166)</u>	<u>-</u>	<u>632,718</u>
Property and equipment, net	<u>\$ 876,374</u>	<u>\$ (86,166)</u>	<u>\$ -</u>	<u>\$ 790,208</u>

Depreciation expense for the year ended December 31, 2025, was \$86,166.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2025 and 2024

5. INCOME TAXES

The Association is classified as a Homeowners' Association for both federal and state income tax purposes for the years ended December 31, 2025 and 2024. The Association is subject to specific rulings and regulations applicable to non-exempt membership organizations. In general, the Association is required to separate its income and deductions into exempt function and non-exempt function income.

For federal tax purposes, the Association is taxed on all net income from non-membership activities, reduced only by expenses related to non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120-H, which has federal and state flat tax rates of 30% and 5%, respectively, on excess non-membership income. The Association had no excess non-membership income for the year ended December 31, 2025 and 2024.

The Association is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2022. For the year ended December 31, 2025 and 2024, the Association has followed the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1 and has not recorded a liability for unrecognized tax benefits.

6. FUTURE MAJOR REPAIRS AND REPLACEMENT COSTS

The Association's Board determined the estimated useful lives and replacement costs of the common property components at December 31, 2025. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in operating funds may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. A Reserve Study is required to be performed every six years and an update, if necessary, no less frequently than every three years. A level 1 update was completed on December 11, 2024. See supplementary information (unaudited) at the end of this report for more information.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2025 and 2024

7. RELATED PARTY TRANSACTIONS

The underlying concept of a common interest realty association is control by members with and for whom the Association conducts its operations. The Association is involved in significant related party transactions as a result of its normal activities with members.

8. LONG-TERM DEBT

USDA

In March 2024, the Association entered into a promissory note payable with the United States of America, acting through USDA Rural Development agencies, in the original principal amount of \$3,650,000. As of December 31, 2025 and 2024, respectively, \$1,210,924 and \$1,052,054 has been drawn from the original principal amount. The interest rate is 2.5% fixed, with monthly installments of \$12,045, beginning April 14, 2024 and continuing on the 14th day of each month thereafter until paid in full. Each installment is applied first to accrued interest and then to principal. The Note is due and payable on March 31, 2064. The Association may make voluntary prepayments of scheduled installments in accordance with the Note and applicable USDA regulations.

Utah State

In January 2014, the Association entered into a promissory note payable with the State of Utah in the original principal amount of \$587,000. The interest rate is 4.2% fixed with average yearly installments of \$44,141 beginning January 1, 2014, and continuing until January 1, 2034. Each installment is applied first to accrued interest and then to principal. The Note is due and payable on January 1, 2034. The Association may make voluntary prepayments of scheduled installments in accordance with the Note.

Future maturities of the long-term debt balances are as follows for the years ended December 31:

Years Ended December 31,	<u>USDA</u>	<u>State of Utah</u>	<u>Total</u>
2026	\$ 120,893	\$ 30,000	\$ 150,893
2027	123,950	32,000	155,950
2028	127,085	33,000	160,085
2029	130,298	34,000	164,298
2030	133,593	36,000	169,593
Thereafter	<u>365,082</u>	<u>158,000</u>	<u>523,082</u>
	<u>\$ 1,000,901</u>	<u>\$ 323,000</u>	<u>\$ 1,323,901</u>

9. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through September 11, 2026, the date the financial statements will be issued.

SUPPLEMENTARY INFORMATION

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Supplementary Schedule of Future Major Repairs and Replacements
For the Years Ended December 31, 2025 and 2024

Below is the executive summary from a reserve study performed in December 2024 to estimate the remaining useful lives and replacement costs of various components of common property. The complete study is stored onsite and through inquiry of management.

**Executive Summary – Lake Rockport Estates POA, Inc (Water) –
ID # 19252**

Information to complete a Level 1, and Level 2 Reserve Study was gathered by performing an in-person site visit of the community. Information to complete the Level 1, Level 2, and Level 3 Reserve Study was gathered by researching the expenditures of the community with the client. In addition, we may have also obtained information by contacting vendors and/or contractors that have worked with the community. To the best of our knowledge, the conclusions and recommendations of this report are considered reliable and accurate as far as the information obtained from these sources.

Projected Starting Balance as of 01/01/2025	\$330,664.60
Ideal Reserve Balance as of 01/01/2025	\$6,026,835
Percent Funded as of 01/01/2025	5%
Recommended Reserve Contribution (per month)	\$18,300
Recommended Special Assessment 2025	\$5,150,000

Lake Rockport Estates POA, Inc (Water) is a 327-unit community. Construction on the community was completed in 1972.

Currently Programmed Projects

There are multiple projects programmed to occur this fiscal year (FY2025). We have programmed an estimated \$5,603,000 in reserve expenditures toward the completion of these projects. (See page 15)

Significant Reserve Projects

The association's significant reserve projects are water line 2025 replace (Comp# 2004), water tank top replace (Comp# 2090), water line 2018 replace (Comp# 2004), and pumping station mid replace (Comp# 2005). The fiscal significance of these components is approximately 55%, 14%, 7%, and 6% respectively (see page 9). A component's significance is calculated by dividing its replacement cost by its useful life. In this way, not only is a component's replacement cost considered but also the frequency of occurrence. These components most significantly contribute to the total monthly reserve contribution. As these components have a high level of fiscal significance the association should properly maintain them to ensure they reach their full useful lives.

Reserve Funding

In comparing the projected starting reserve balance of \$330,664.60 versus the ideal reserve balance of \$6,026,835 we find the association's reserve fund to be approximately 5% funded. This indicates a weak reserve fund position. In order to continue to strengthen the account fund, we suggest adopting a monthly reserve contribution of \$18,300 (\$55.96/unit) per month. If the contribution falls below this rate, then the reserve fund may fall into a situation where special assessments, deferred maintenance, and lower property values are likely at some point in the future.

COMPLIANCE SECTION



COMMITTED. EXPERIENCED. TRUSTED.

PARTNERS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

Honorable Board Members of
Lake Rockport Estates Property Owners Association
Coalville, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake Rockport Estates Property Owners Association (the Association) as of and for the year ended December 31, 2025 and the related notes to the financial statements, which collectively comprise the Associations basic financial statements, and have issued our report thereon dated August 19, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Associations internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association internal control. Accordingly, we do not express an opinion on the effectiveness of the Association internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings in items 2025-001 and 2025-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings in items 2025-001 and 2025-002 that we consider to be significant deficiencies

Lake Rockport Estates (Association) Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Association in response to the findings identified in our audit and described in the accompanying schedule of findings in items 2025-001 and 2025-002. The Association response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBMC, LLC

Bountiful City
September 11, 2026

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION

Schedule of Findings and Responses For the year ended December 31, 2025

Finding 2025-001: Controls Over Capital Asset Accounting and Supporting Documentation

Classification: Significant Deficiency

Criteria

The Association's Management is responsible for establishing and maintaining internal controls over financial reporting that provide reasonable assurance that transactions are properly authorized, recorded, supported, and reported in accordance with the applicable financial reporting framework. Effective internal controls over fixed assets include:

- A formal, board-approved capitalization policy that defines the types of expenditures to be capitalized, capitalization thresholds, useful lives, depreciation methods, and procedures for disposal or retirement of assets;
- Procedures to ensure depreciation expense is calculated and recorded in the proper reporting period based on approved useful lives and methods; and
- Retention of adequate supporting documentation for capital asset additions, including vendor invoices, contracts, approvals, and evidence supporting the nature and amount of the expenditure.

Condition

During the audit, the Association's controls over capital asset accounting and related supporting documentation were not formally established by the Board. The condition consisted of the following related matters:

1. **No formal board-approved capitalization policy.** The Association did not have a written capitalization policy approved by the Board of Directors. As a result, there was no formal guidance specifying capitalization thresholds, asset categories, estimated useful lives, depreciation methods, or procedures for evaluating whether expenditures should be capitalized or expensed.
2. **Depreciation expense not properly recorded each year.** Depreciation expense was not consistently and properly recorded in each reporting period. Adjustments were required to record depreciation expense in accordance with the Association's capital asset records and the applicable financial reporting framework.
3. **Lack of support for certain fixed asset purchases.** The Association was unable to provide adequate supporting documentation for many invoices and expenditures recorded as fixed asset purchases, especially for assets older than 2013. In certain instances, documentation was not available or sufficient to verify the authorization for, the nature of, the amount recorded, or whether the expenditure met the criteria for capitalization.

Cause

The Association had not developed and implemented a comprehensive capital asset accounting process, including a board-approved capitalization policy, periodic review procedures, and documentation retention requirements. In addition, responsibility for reviewing capital asset additions, recording depreciation, and maintaining supporting documentation was not sufficiently formalized.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Schedule of Findings and Responses (Continued)
For the year ended December 31, 2025

Effect

Without a formal capitalization policy and effective procedures over capital asset accounting, there is an increased risk that capital asset additions, depreciation expense, accumulated depreciation, and related expenses may not be recorded accurately or consistently in the financial statements. Inadequate supporting documentation also limits the Association's ability to substantiate recorded capital asset balances and determine whether expenditures were properly classified as fixed assets or current-period expenses. Inadequate supporting documentation also increases the risk of misappropriation of assets and overall fraud risks. Audit adjustments were required to properly state fixed assets, accumulated depreciation, depreciation expense, and related equity amounts.

Recommendation

Management should develop a written capitalization policy for review and approval by the Board of Directors. The policy should address, at a minimum:

- Capitalization thresholds;
- Types of expenditures eligible for capitalization;
- Required supporting documentation and approval procedures;
- Assigned useful lives by asset category;
- Depreciation methods and timing of depreciation recognition;
- Procedures for periodic review of the capital asset listing; and
- Procedures for disposals, retirements, and impairments, as applicable.

Management should also implement procedures to ensure depreciation expense is calculated and recorded annually before the financial statements are prepared. In addition, management should maintain complete supporting documentation for all capital asset purchases, including invoices, contracts, board approvals, and evidence supporting the business purpose and nature of each expenditure. The Board should periodically review capital asset activity and depreciation records to ensure the Association's fixed assets are recorded accurately and consistently.

Management's Response to the Finding

Management and the Board concur with the finding. The Association will adopt a formal capitalization policy addressing capitalization thresholds, qualifying expenditures, supporting documentation, estimated useful lives, depreciation methods, periodic review, and asset disposals. Management will establish and maintain a fixed-asset register reconciled to the general ledger and will calculate and record depreciation before preparation of the annual financial statements to support proper presentation of capital assets, accumulated depreciation, and depreciation expense. The Association will also review historical fixed assets and document available support, physical existence, and recommended disposition of unsupported, fully disposed, or retired assets. The Treasurer will review the annual asset reconciliation, and material adjustments will be presented to the Board for approval. The Association anticipates implementing these corrective actions by 11/1/2026.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Schedule of Findings and Responses (Continued)
For the year ended December 31, 2025

Finding 2025-002: Controls Over Year-End Financial Reporting Accruals and Debt Classification

Classification: Significant Deficiency

Criteria

The Association's Management is responsible for establishing and maintaining internal controls over financial reporting that provide reasonable assurance that transactions are properly authorized, recorded, supported, and reported in accordance with the applicable financial reporting framework. Effective internal controls over year-end financial reporting and audit preparation include:

- Procedures to review and record year-end accruals for accounts payable and accounts receivable balances for end of fiscal year-end and to ensure that the audit-ready trial balance is on the accrual basis of accounting.
- Reviewing and recording notes payable amortization schedules for current and non-current balances for fiscal year-end balances.

Condition

During the audit, the Association's controls over year-end financial reporting and audit preparation processes were not adequately designed or had not been formally established by the Board. The condition consisted of the following related matters:

1. **Accrual Recording.** No GAAP-required accruals were made in preparation for the audit. Audit adjustments were required by HBME to record and review accounts receivable and accounts payable in accordance with the applicable financial reporting framework.
2. **Notes Payable classification.** Notes Payable were not properly classified between current and noncurrent balances. Audit adjustments and auditor-prepared amortization schedules were required to record current and non-current balances within the applicable financial reporting framework.

Cause

The Association's year-end closing procedures and audit preparation did not include initial preparation nor sufficient review procedures to ensure that all necessary GAAP-required accruals were identified and recorded and that notes payable balances were properly classified before the financial statements were prepared for audit. The Association's procedures did not include a formal checklist or comparable review process addressing year-end accounts payable, accounts receivable, and current versus noncurrent debt classification.

Effect

Without effective controls over year-end accruals and debt classification, financial statement amounts were incomplete and improperly classified. Accounts payable and accounts receivable balances were also understated, as amounts incurred or earned before year-end were not identified and properly recorded. Notes payable were also misstated by classification, as amounts due within one year were not separately presented as current liabilities. These conditions resulted in audit adjustments and reclassifications to present the financial statements in accordance with the applicable financial reporting framework.

LAKE ROCKPORT ESTATES PROPERTY OWNERS ASSOCIATION
Schedule of Findings and Responses (Continued)
For the year ended December 31, 2025

Recommendation

The Association should strengthen its year-end financial reporting and audit preparation procedures by implementing a formal closing process that includes review and documentation of significant accruals and debt classifications before the audit begins. At a minimum, the Association should:

- Review vendor invoices, subsequent disbursements, contracts, and other relevant records to identify accounts payable incurred before year-end.
- Review assessment records, owner balances, and other relevant receivable information to identify accounts receivable earned before year-end.
- Review notes payable amortization schedules or loan agreements to determine the portion of principal due within one year and classify notes payable between current and noncurrent liabilities.
- Document the review procedures performed, the supporting schedules prepared, and the basis for recorded accruals and classifications.
- Assign responsibility for completion and review of the year-end closing procedures to appropriate Association personnel or the Association's financial management service provider, as applicable.

Implementing these procedures will improve the completeness, accuracy, and classification of amounts reported in the Association's financial statements and reduce the likelihood of audit adjustments or reclassifications related to year-end accruals and debt presentation.

Management's Response to the Finding

Management and the Board concur with the finding. The Association will implement a formal year-end closing checklist covering accounts payable and receivable accruals, subsequent receipts and disbursements, capital assets, depreciation, loan balances, accrued interest, and current and noncurrent debt classifications. The checklist will be designed to support accrual-basis financial statement presentation and proper classification of assets, liabilities, revenues, and expenses as of year-end. The Association's accounting provider will prepare the closing schedules and entries, and the Treasurer or another designated reviewer will document an independent review before the records are provided to the auditor. A debt schedule and supporting amortization schedules will be maintained and reconciled throughout the year, including identification of principal due within one year for current liability presentation. The Association anticipates implementing these corrective actions by 11/1/2026.