

Property Owners' Association of Terlingua Ranch, Inc.

Balance Sheet

December 31, 2015 and 2014

	2015	2014
ASSETS		
Current Assets		
Cash and Cash Equivalents		
Cash - Undesignated	\$ 231,586	\$ 111,683
Cash - Designated	338,630	338,099
Cash and Cash Equivalents	<u>570,216</u>	<u>449,782</u>
Assessments Receivable, Net of Allowance	244,816	294,648
Accounts Receivable	572	1,193
Inventories	20,410	19,822
Prepaid Expenses	7,780	6,442
Auction Property Tracts	87,547	70,113
Total Other Current Assets	<u>361,125</u>	<u>392,217</u>
Total Current Assets	<u>931,341</u>	<u>841,999</u>
Property and Equipment, Net	523,073	674,105
Other Assets		
Deferred Tax Asset	99,000	99,000
Total Other Assets	<u>99,000</u>	<u>99,000</u>
Total Assets	<u><u>\$ 1,553,414</u></u>	<u><u>\$ 1,615,103</u></u>
LIABILITIES & MEMBERS' EQUITY		
Liabilities		
Accounts Payable	\$ 32,440	\$ 5,707
Prepaid Assessments	53,954	75,502
Accrued Liabilities	23,974	16,515
Total Liabilities	<u>110,368</u>	<u>97,724</u>
Members' Equity		
Contributed Capital	87,296	85,213
Undesignated	998,952	1,094,067
Designated	356,798	338,099
Total Members' Equity	<u>1,443,046</u>	<u>1,517,379</u>
Total Liabilities and Members' Equity	<u><u>\$ 1,553,414</u></u>	<u><u>\$ 1,615,103</u></u>

The accompanying notes are an integral part of this statement.

Property Owners' Association of Terlingua Ranch, Inc.
Statement of Revenues and Expenses
Year Ended December 31, 2015 and 2014

	2015	2014
REVENUES		
Members' Assessments	\$ 494,846	\$ 482,461
Lodge Operations, Net of Discounts	371,783	206,595
Property auction Proceeds	5,416	19,681
Interest and Other Miscellaneous Income	3,461	8,986
	<hr/>	<hr/>
Total Revenue	875,506	717,722
EXPENSES		
Advertising and Newsletters	3,825	3,556
Bad Debt	50,000	50,000
Credit Card Fees	13,960	8,695
Insurance	47,099	41,686
Licenses, Fees, and Permits	3,991	2,151
Lodge Expenses	90,955	18,060
Office Supplies and Leased Equipment	9,602	8,410
Other Miscellaneous Expenses	140	2,377
Payroll and Benefits	352,826	293,028
Postage, Printing, and Internet	10,082	10,935
Professional Fees	63,602	29,131
Property Taxes	14,404	15,626
Repairs and Maintenance	83,159	67,479
Software Maintenance	3,902	5,428
Supplies and Equipment	20,551	17,462
Telephone, Utilities, and Garbage	44,818	43,310
Travel	303	491
Vehicle	24,328	26,321
	<hr/>	<hr/>
Total Expenses	837,547	644,145
	<hr/>	<hr/>
Excess of Revenues over Expenses Before Depreciation	\$ 37,959	\$ 73,576
	<hr/>	<hr/>
Depreciation	50,231	54,504
Excess of Revenue (Deficiency) over Expenses	<u>\$ (12,272)</u>	<u>\$ 19,073</u>

The accompanying notes are an integral part of this statement.

Property Owners' Association of Terlingua Ranch, Inc.
Statement of Changes in Members' Equity
Year Ended December 31, 2015 and 2014

	<u>Contributed</u>			<u>Total</u>
	<u>Capital</u>	<u>Undesignated</u>	<u>Designated</u>	
Members' Equity - January 1, 2014	\$ -	\$ 1,075,428	\$ 337,665	\$ 1,413,093
Excess of revenue over expenses		18,639	434	19,073
Allocated to future repairs and replacements	-	-	-	-
Major replacements and additions				
Auction Property Tracts	85,213	-	-	85,213
Members' Equity - December 31, 2014	\$ 85,213	\$ 1,094,067	\$ 338,099	\$ 1,517,379
Excess of revenue over expenses		(12,272)	-	(12,272)
Allocated to future repairs and replacements	-	-	-	-
Major replacements and additions				
Auction Property Tracts	2,083		18,699	20,782
Prior Period Adjustment to Undesignated				
Fully Depreciated Assets	-	(82,842)	-	(82,842)
Members' Equity - December 31, 2015	\$ 87,296	\$ 998,953	\$ 356,798	\$ 1,443,047

The accompanying notes are an integral part of this statement.

Property Owners' Association of Terlingua Ranch, Inc.

Statement of Cash Flows

Year Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Excess of Revenue over Expenses	(12,272) \$	19,073
Items not requiring (providing) operating activities cash flows		
Depreciation	50,231	63,391
Changes in:		
Accounts Receivable	618	628
Membership Assessment Receivable	46,244	26,472
Inventories	587	7,393
Prepaid Expenses	(1,338)	(139)
Auction Property Tracts	(17,434)	(70,113)
Accounts Payable	26,728	3,629
Prepaid Assessments	(21,549)	(8,887)
Accrued Liabilities	8,534	1,433
Deferred Income	3,860	13,821
Net cash provided (used) by Operating Activities	<u>84,209</u>	<u>56,701</u>
Investing Activities		
Purchase of Property & Equipment	(48,700)	(162,430)
Full Depreciated Asset Write off	82,842	-
Net cash provided (used) by Investing Activities	<u>34,142</u>	<u>(162,430)</u>
Financing Activities		
Contributed Capital	2,083	85,213
Net cash provided (used) by Financing Activities	<u>2,083</u>	<u>85,213</u>
Net Increase (Decrease) in Cash and Cash Equivalents	120,434	(20,516)
Cash and Cash Equivalents, Beginning of the Year	<u>449,782</u>	<u>470,298</u>
Cash and Cash Equivalents, End of Year	<u>\$ 570,216</u>	<u>\$ 449,782</u>

The accompanying notes are an integral part of this statement.

Property Owners' Association of Terlingua Ranch, Inc.

Notes to the Audited Financial Statements

For the year ended December 31, 2015 and 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities

The Property Owners' Association of Terlingua Ranch, Inc. (POATRI) is incorporated as a Texas not-for-profit corporation for the purposes of protecting the personal and property rights of all members, and their families and guests; promoting the safety and welfare of all members, families and guests; and operating and maintaining the common property of POATRI. Property Owners' Association of Terlingua Ranch consists of approximately 5,052 property owners on approximately 190,316 acres located in Brewster County, Texas. The Association began operations in November 1976.

The Association owns and operates Cabins and Restaurant, a Campground, along with other recreational facilities. The Association also provides water, ice and other retail items for sale. During 2015, these facilities were operated for the entire year. Based on the Supplemental Revenue for the Association, in 2015 these operations accounted for 40% of the revenue and in 2014 accounted for 28% of the revenue.

B. Basis of Presentation

POATRI follows the financial reporting practices of Common Interest Realty Association (CIRA) as presented in the AICPA Audit and Accounting Guides for CIRA's (AICPA Guide). The AICPA Guide defines as common property, property such as POATRI's, wherein title or other evidence of ownership is held directly by the CIRA.

C. Cash and Cash Equivalents

The Association has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents and considers cash equivalents to be all temporary investments that are readily convertible to cash, such as certificates of deposits, commercial paper, and treasury bills with maturity of less than three (3) months.

D. Accounts Receivable - Members' Assessments

Association members are subject to annual assessments to provide funds for POATRI's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent amounts expected to be collected from outstanding assessments.

Members are billed annually in December for their annual assessments, which are due and payable in March. The allowance for doubtful accounts as of December 31, 2015 was \$241,630. This balance represents Management's estimates of Owner's Assessments prior to 2015 deemed uncollectible.

Revenue from assessments is recognized in the period assessed. Assessments received in advance of the period assessed are deferred on the balance sheet as prepaid.

POATRI has the right to foreclose on property for non-payment of Assessments and has the ability to auction this property, paying any outstanding assessments associated with the property.

Property Owners' Association of Terlingua Ranch, Inc.

Notes to Audited Financial Statements

For the year ended December 31, 2015 and 2014

E. Inventories

Inventories are stated at the lower of cost or market, determined by the first-in, first-out method. Inventory primarily includes merchandise for sale.

F. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the 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. Actual results could differ from those estimates.

G. Property and Equipment

Real property and common areas acquired or self-constructed, along with related improvements to such property, are recorded at cost. When property and equipment is sold or otherwise disposed, any resulting gain or loss is included in income of the period.

The Association capitalizes property and equipment over \$1,000 and all expenditures for repairs, maintenance, renovations, and betterments that materially prolong the lives of assets are capitalized. Property and equipment is depreciated using the straight-line method over estimated useful lives of the respective assets. The estimated useful lives for each major depreciable classification of property and equipment range from five to thirty-nine years.

H. Common Property

The Association holds title to property consisting of Cabins, Restaurant/Meeting Rooms, Office Building, Pool and Bath House, water wells, and various other buildings and equipment. The Association maintains all properties to which title is held. The Association maintains over approximately 1,000 miles of roadways for its members.

I. Construction and renovation in Progress

Costs for material that clearly relate to renovation projects are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, costs are allocated based on their relative value to the completed cabin renovations. Interest costs, if any, will be capitalized while the renovation is in progress.

J. Tracts held for Auction

Property Tracts held for auction amounted to \$87,547 and \$70,113 at December 31, 2015 and 2014 respectively. These consist of tracts obtained from property owners either as donations or through foreclosure as a result of failure by the property owners to pay membership assessments. Amounts are based on the value on the Brewster County tax rolls and prior auctions which approximates fair value.

Property Owners' Association of Terlingua Ranch, Inc.

Notes to Audited Financial Statements

For the year ended December 31, 2015 and 2014

The auction procedures are for a defined period of time during the year, with the tract being awarded to the highest bidder. Costs, if any, incurred by the Association for the auction reduce the proceeds received.

K. Income Taxes

POATRI is classified as a nonexempt membership organization for federal tax and is tax exempt for state franchise tax purposes. It does not qualify as an exempt organization for federal income tax purposes. POATRI is subject to specific ruling and regulation applicable to nonexempt membership organizations. In general, POATRI is required to separate its taxable income and deductions into membership transactions, non-membership transactions, and capital transactions.

For Federal tax purposes, POATRI is taxed on all net income from non-membership activities reduced only by losses from 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.

Management is required to evaluate the tax positions taken by the Association and recognize a tax liability if the organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions of the Association and has concluded that as of December 31, 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's Form 1120, are subject to examination by the IRS, generally for three years after they were filed. Management believes it is no longer subject to income tax examination for years prior to 2012.

L. Concentration of Credit Risk

Owners' assessments are owed by economically diverse individuals principally in Texas; the Association has indicated that it will auction foreclosed properties for any unpaid assessments.

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and investments. The Association maintains cash deposits with major financial institutions which, from time-to-time, may exceed federally insured limits. The Association periodically assesses the financial condition of the institutions and believes the risk of any loss is minimal.

M. New Accounting Pronouncements

Management is not aware of any new accounting pronouncements that have been released, and are not yet effective, which will have a significant impact to its financial position or results of operations in future periods.

Property Owners' Association of Terlingua Ranch, Inc.

Notes to Audited Financial Statements

For the year ended December 31, 2015 and 2014

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

		2015	2014
Land	\$	153,351	\$ 149,189
Buildings and Structures		231,652	97,453
Improvements		582,167	559,464
Maintenance Equipment		181,533	342,568
Furniture and Equipment		94,732	94,732
Vehicles		131,786	131,786
Software		94,804	94,804
Construction and renovation in progress		10,748	15,166
		1,480,773	1,485,162
Less: Fully Depreciated		(439,613)	-
		1,041,160	1,485,162
Accumulated Depreciation		(518,088)	(811,057)
Property and Equipment, Net	\$	523,073	\$ 674,105

Depreciation for the year ended 2015 and 2014 was \$50,231 and \$54,504 respectively.

No interest was capitalized due to the construction and renovation in progress.

NOTE 3: CASH DESIGNATED

The Association's governing documents generally provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacement are needed. The Board of Directors, however, has chosen to establish a replacement fund for the estimated cost of future major repairs and replacements in 2015 of approximately \$136, 000.

In addition the Board has segregated in 2015 approximately \$202,000 in contingency funds. Designated funds, which aggregate approximately \$338,000 at December 2015, are held in separate accounts and are generally not available for operating purposes.

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's board of directors conducted a study in December 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from insurance coverage estimates of replacement value, actual costs of renovation undertaken within the preceding 5 years, and taxable value of the improvements per the Brewster County Appraisal District taxing authority. Estimate current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

Property Owners' Association of Terlingua Ranch, Inc.

Notes to Audited Financial Statements

For the year ended December 31, 2015 and 2014

The Following information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
Cabins	25	\$320,000
Restaurant/Meeting Room	25	100,000
Office Building	25	40,000
Other Buildings	10	115,000
Swimming Pool & Equipment	5	25,000
Water Wells & Equipment	15	35,000
Furnishings & Equipment	7-10	459,500
TOTALS		<u>\$1,094,500</u>

NOTE 6: Subsequent Events

POATRI has evaluated events subsequent to the date of the balance sheet, December 31, 2015 through July 26, 2016, the date these financial statements were suitable to be issued, and concluded that no significant subsequent event has occurred that would require disclosure in the notes or recognition in the financial statements