

**Property Owners' Association of Terlingua Ranch, Inc.**

**Balance Sheet**

December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents		
Cash - Undesignated	\$ 303,772	\$ 231,586
Cash - Designated	305,882	338,630
Cash and Cash Equivalents	<u>609,654</u>	<u>570,216</u>
Assessments Receivable, Net of Allowance	213,041	244,816
Accounts Receivable	5,861	572
Inventories	25,399	20,410
Prepaid Expenses	8,078	7,780
Auction Property Tracts	39,122	87,547
Total Other Current Assets	<u>291,501</u>	<u>361,125</u>
<b>Total Current Assets</b>	<u>901,155</u>	<u>931,341</u>
Property and Equipment, Net	564,200	523,073
<b>Other Assets</b>		
Deferred Tax Asset	99,000	99,000
<b>Total Other Assets</b>	<u>99,000</u>	<u>99,000</u>
<b>Total Assets</b>	<u><u>\$ 1,564,355</u></u>	<u><u>\$ 1,553,414</u></u>
<b>LIABILITIES &amp; MEMBERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts Payable	\$ 27,617	\$ 32,440
Prepaid Assessments	93,466	53,954
Accrued Liabilities	20,082	23,974
<b>Total Liabilities</b>	<u>141,165</u>	<u>110,368</u>
<b>Members' Equity</b>		
Contributed Capital	90,512	87,296
Undesignated	975,880	998,952
Designated	356,798	356,798
<b>Total Members' Equity</b>	<u>1,423,190</u>	<u>1,443,046</u>
<b>Total Liabilities and Members' Equity</b>	<u><u>\$ 1,564,355</u></u>	<u><u>\$ 1,553,414</u></u>

**Property Owners' Association of Terlingua Ranch, Inc.**  
**Statement of Revenues and Expenses**  
Year Ended December 31, 2016 and 2015

REVENUES		2016	2015
	Members' Assessments	\$ 523,212	\$ 494,846
	Lodge Operations, Net of Discounts	449,897	371,783
	Property auction Gain (Loss)	(7,571)	5,416
	Interest and Other Miscellaneous Income	1,560	3,461
	<b>Total Revenue</b>	<b>967,098</b>	<b>875,506</b>
EXPENSES			
	Advertising and Newsletters	7,276	3,825
	Bad Debt	50,000	50,000
	Credit Card Fees	17,213	13,960
	Insurance	56,148	47,099
	Licenses, Fees, and Permits	1,137	3,991
	Lodge Expenses	124,733	90,955
	Office Supplies and Leased Equipment	11,498	9,602
	Other Miscellaneous Expenses	(59)	140
	Payroll and Benefits	421,153	352,826
	Postage, Printing, and Internet	8,211	10,082
	Professional Fees	57,476	63,602
	Property Taxes	15,177	14,404
	Repairs and Maintenance	33,679	83,159
	Software Maintenance	3,920	3,902
	Supplies and Equipment	31,634	20,551
	Telephone, Utilities, and Garbage	40,900	44,818
	Travel	1,086	303
	Vehicle	39,929	24,328
	<b>Total Expenses</b>	<b>921,111</b>	<b>837,547</b>
	Excess of Revenues over Expenses Before Depreciation	\$ 45,987	\$ 37,959
	Depreciation	56,068	50,231
	Excess of Revenue (Deficiency) over Expenses	\$ (10,081)	\$ (12,272)

**Property Owners' Association of Terlingua Ranch, Inc.**  
**Statement of Changes in Members' Equity**  
Year Ended December 31, 2016 and 2015

	<u>Contributed</u>			<u>Total</u>
	<u>Capital</u>	<u>Undesignated</u>	<u>Designated</u>	
Members' Equity - January 1, 2015	\$ 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
Excess of revenue over expenses		(10,081)	-	(10,081)
Allocated to future repairs and replacements	-	-	-	-
Major replacements and additions				
Auction Property Tracts	3,216	(12,674)	-	(9,458)
Prior Period Adjustment to Undesignated	-	(318)	-	(318)
Members' Equity - December 31, 2016	\$ 90,512	\$ 975,880	\$ 356,798	\$ 1,423,190

**Property Owners' Association of Terlingua Ranch, Inc.**  
**Statement of Cash Flows**  
Year Ended December 31, 2016 and 2015

	2016	2015
<b>Operating Activities</b>		
Excess of Revenue over Expenses	(10,081) \$	(12,272)
Items not requiring (providing) operating activities cash flows		
Depreciation	56,068	50,231
Changes in:		
Accounts Receivable	(5,286)	618
Membership Assessment Receivable	21,093	46,244
Inventories	(4,989)	587
Prepaid Expenses	(298)	(1,338)
Auction Property Tracts	48,425	(17,434)
Accounts Payable	(4,368)	26,728
Prepaid Assessments	39,513	(21,549)
Accrued Liabilities	(4,665)	8,534
Deferred Income	10,682	3,860
Net cash provided (used) by Operating Activities	<u>146,094</u>	<u>84,209</u>
<b>Investing Activities</b>		
Purchase of Property & Equipment	(97,195)	(48,700)
Full Depreciated Asset Write off	(12,674)	82,842
Net cash provided (used) by Investing Activities	<u>(109,869)</u>	<u>34,142</u>
<b>Financing Activities</b>		
Contributed Capital	3,213	2,083
Net cash provided (used) by Financing Activities	<u>3,213</u>	<u>2,083</u>
Net Increase (Decrease) in Cash and Cash Equivalents	39,438	120,434
Cash and Cash Equivalents, Beginning of the Year	<u>570,216</u>	<u>449,782</u>
Cash and Cash Equivalents, End of Year	<u>\$ 609,654</u>	<u>\$ 570,216</u>

# **Property Owners' Association of Terlingua Ranch, Inc.**

## **Notes to the Audited Financial Statements**

For the year ended December 31, 2016 and 2015

### **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 5,034 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. Beginning in 2015, these facilities were operated for the entire year. Based on the Supplemental Revenue for the Association, in 2016 these operations accounted for 46% of the revenue and in 2015 these operations accounted for 40% 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 \$263,041. This balance represents Management's estimates of Owner's Assessments prior to 2016 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, 2016 and 2015

### **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 \$39,122 and \$87,547 at December 31, 2016 and 2015 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, 2016 and 2015

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, 2016, 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 2013.

### **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, 2016 and 2015

### NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

		<u>2016</u>	<u>2015</u>
Land		\$ 153,351	\$ 153,351
Buildings and Structures		231,652	231,652
Improvements		365,602	582,167
Maintenance Equipment		164,648	181,533
Furniture and Equipment		44,037	94,732
Vehicles		73,560	131,786
Software		94,804	94,804
Construction and renovation in progress		10,702	10,748
		1,138,356	1,480,773
Less: Fully Depreciated		-	(439,613)
		1,138,356	1,041,160
Accumulated Depreciation		(574,156)	(518,088)
Property and Equipment, Net		\$ 564,200	\$ 523,072

Depreciation for the year ended 2016 and 2015 was \$56,068 and \$50,231 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 2016 of approximately \$105,000.

In addition, the Board has segregated in 2016 approximately \$201,000 in contingency funds. Designated funds, which aggregate approximately \$306,000 at December 2016, 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, 2016 and 2015

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
<b>TOTALS</b>		<b><u>\$1,094,500</u></b>

### NOTE 6: Subsequent Events

POATRI has evaluated events subsequent to the date of the balance sheet, December 31, 2016 through October 14, 2017, 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