
Property Owners' Association of Terlingua Ranch, Inc.

Annual Financial
Report and
Independent
Auditor's Report

Years ended December 31, 2017
and 2016

Property Owners' Association of Terlingua Ranch, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Property Owners' Association of Terlingua Ranch, Inc.
Terlingua, TX

Report on the Financial Statements

I have audited the accompanying financial statements of Property Owners' Association of Terlingua Ranch, Inc., which comprise the balance sheet as of December 31, 2017 and 2016, and the related statement of income and cash flows for the year then ended, and the related 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 the 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 audits. 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 from 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 internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that 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 Property Owners' Association of Terlingua Ranch, Inc. as of December 31, 2017 and 2016, and the results of its operations and cash flows for the year then ended in accordance with the 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 Future Major Repairs and Replacements in Note 5 of the Notes to the Audited Financial Statements 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, 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. 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, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because my limited procedures on this information do not provide me with sufficient evidence to express an opinion or provide any assurance.



Patsy C. Culver, CPA

Alpine, TX

October 23, 2018

Property Owners' Association of Terlingua Ranch, Inc.

Balance Sheet

December 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and Cash Equivalents		
Cash - Undesignated	\$ 437,222	\$ 303,772
Cash - Designated	321,112	305,882
Cash and Cash Equivalents	<u>758,334</u>	<u>609,654</u>
Assessments Receivable, Net of Allowance	201,305	213,041
Accounts Receivable	-	5,861
Inventories	26,476	25,399
Prepaid Expenses	8,030	8,078
Auction Property Tracts	<u>27,322</u>	<u>39,122</u>
Total Other Current Assets	<u>263,133</u>	<u>291,501</u>
Total Current Assets	<u>1,021,467</u>	<u>901,155</u>
Property and Equipment, Net	531,022	564,200
Other Assets		
Deferred Tax Asset	<u>99,000</u>	<u>99,000</u>
Total Other Assets	<u>99,000</u>	<u>99,000</u>
Total Assets	<u><u>\$ 1,651,489</u></u>	<u><u>\$ 1,564,355</u></u>
LIABILITIES & MEMBERS' EQUITY		
Liabilities		
Accounts Payable	\$ 16,601	\$ 27,617
Prepaid Assessments	70,873	93,466
Accrued Liabilities	<u>42,720</u>	<u>20,082</u>
Total Liabilities	<u>130,194</u>	<u>141,165</u>
Members' Equity		
Contributed Capital	90,512	90,512
Undesignated	1,073,986	975,880
Designated	<u>356,797</u>	<u>356,798</u>
Total Members' Equity	<u>1,521,295</u>	<u>1,423,190</u>
Total Liabilities and Members' Equity	<u><u>\$ 1,651,489</u></u>	<u><u>\$ 1,564,355</u></u>

Property Owners' Association of Terlingua Ranch, Inc.
Statement of Revenues and Expenses
Year Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES		
Members' Assessments	\$ 601,427	\$ 523,212
Lodge Operations, Net of Discounts	545,336	449,897
Property auction Gain (Loss)	616	(7,571)
Sale of Asset Gain (Loss)	(3,955)	
Interest and Other Miscellaneous Income	7,828	1,560
	<hr/>	<hr/>
Total Revenue	1,151,252	967,098
EXPENSES		
Advertising and Newsletters	13,247	7,276
Bad Debt	50,000	50,000
Credit Card Fees	24,834	17,213
Insurance	57,768	56,148
Licenses, Fees, and Permits	15,021	1,137
Lodge Expenses	137,303	124,733
Office Supplies and Leased Equipment	32,810	11,498
Other Miscellaneous Expenses	258	(59)
Payroll and Benefits	497,005	421,153
Postage, Printing, and Internet	8,035	8,211
Professional Fees	28,783	57,476
Property Taxes	14,555	15,177
Repairs and Maintenance	27,569	33,679
Software Maintenance	5,453	3,920
Supplies and Equipment	40,681	31,634
Telephone, Utilities, and Garbage	43,881	40,900
Travel	1,509	1,086
Vehicle	39,291	39,929
	<hr/>	<hr/>
Total Expenses	1,038,003	921,111
	<hr/>	<hr/>
Excess of Revenues over Expenses Before Depreciation	\$ 113,249	\$ 45,987
	<hr/>	<hr/>
Depreciation	55,905	56,068
Excess of Revenue (Deficiency) over Expenses	<u>\$ 57,344</u>	<u>\$ (10,081)</u>

Property Owners' Association of Terlingua Ranch, Inc.
Statement of Changes in Members' Equity
Year Ended December 31, 2017 and 2016

	<u>Contributed</u>			<u>Total</u>
	<u>Capital</u>	<u>Undesignated</u>	<u>Designated</u>	
Members' Equity - January 1, 2016	\$ 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	 \$ 356,797	 \$ 1,423,190
 Excess of revenue over expenses		57,344	-	57,344
 Allocated to future repairs and replacements	-	-	-	-
 Major replacements and additions				
Auction Property Tracts	-	-	-	-
 Prior Period Adjustment to Undesignated	-	2,698	-	2,698
Assessment Receivable		38,064		38,064
 Members' Equity - December 31, 2017	 \$ 90,512	 \$ 1,073,986	 \$ 356,797	 \$ 1,521,295

Property Owners' Association of Terlingua Ranch, Inc.

Statement of Cash Flows

Year Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Excess of Revenue over Expenses	57,344	\$ (10,081)
Items not requiring (providing) operating activities cash flows		
Depreciation	55,905	56,068
Changes in:		
Accounts Receivable	5,861	(5,286)
Membership Assessment Receivable	85,695	21,093
Inventories	(2,200)	(4,989)
Prepaid Expenses	48	(298)
Auction Property Tracts	11,800	48,425
Accounts Payable	(7,054)	(4,368)
Prepaid Assessments	(22,593)	39,513
Accrued Liabilities	22,637	(4,665)
Deferred Income	(40,703)	10,682
Net cash provided (used) by Operating Activities	<u>166,740</u>	<u>146,094</u>
Investing Activities		
Purchase of Property & Equipment	(18,060)	(97,195)
Full Depreciated Asset Write off	-	(12,674)
Net cash provided (used) by Investing Activities	<u>(18,060)</u>	<u>(109,869)</u>
Financing Activities		
Contributed Capital	-	3,213
Net cash provided (used) by Financing Activities	<u>-</u>	<u>3,213</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 148,680	 39,438
 Cash and Cash Equivalents, Beginning of the Year	 <u>609,654</u>	 <u>570,216</u>
 Cash and Cash Equivalents, End of Year	 <u><u>\$ 758,334</u></u>	 <u><u>\$ 609,654</u></u>

Property Owners' Association of Terlingua Ranch, Inc.

Notes to the Audited Financial Statements

For the year ended December 31, 2017 and 2016

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 5,032 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 2017 these operations accounted for 47% of the revenue and in 2016 these operations accounted for 46% 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 on December 1st for their annual assessments, which are due and payable in March. The allowance for doubtful accounts as of December 31, 2017 was \$199,161. This balance represents Management's estimates of Owner's Assessments prior to 2017 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, 2017 and 2016

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 \$5,000 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 \$27,322 and \$39,122 at December 31, 2017 and 2016 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, 2017 and 2016

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, 2017, 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, 2017 and 2016

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

		<u>2016</u>	<u>2016</u>
Land		\$ 142,101	\$ 153,351
Buildings and Structures		231,652	231,652
Improvements		406,714	365,602
Maintenance Equipment		148,998	164,648
Furniture and Equipment		44,037	44,037
Vehicles		79,600	73,560
Software		94,804	94,804
Construction and renovation in progress		8,482	10,702
		1,156,388	1,138,356
Less: Fully Depreciated		-	-
		1,156,388	1,138,356
Accumulated Depreciation		<u>(625,366)</u>	<u>(574,156)</u>
Property and Equipment, Net		\$ 531,022	\$ 564,200

Depreciation for the year ended 2017 and 2016 was \$55,905 and \$56,608 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 2017 of approximately \$120,147.

In addition, the Board has segregated in 2017 approximately \$201,000 in contingency funds. Designated funds, which aggregate approximately \$321,000 at December 2017, 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. Estimated current replacement costs has 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, 2017 and 2016

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	<u>459,500</u>
TOTALS		<u>\$1,094,500</u>

NOTE 6: Subsequent Events

POATRI has evaluated events subsequent to the date of the balance sheet, December 31, 2017 through October 23, 2018, 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