

**PROPERTY OWNERS' ASSOCIATION
OF TERLINGUA RANCH, INC.**

**FINANCIAL REPORT
(REVIEWED)**

DECEMBER 31, 2023 and 2022

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Independent Accountant's Review Report

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

We have reviewed the accompanying combined financial statements of Property Owners' Association of Terlingua Ranch, Inc. (the Company, which comprise the combined balance sheets as of December 31, 2023, and 2022, and the related combined statements of income, changes in members' equity and cash flows for the years then ended, and the related notes to the combined financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Lauterbach, Baschaw & Company

El Paso, Texas
October 7, 2024

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.

BALANCE SHEETS

December 31, 2023 and 2022

ASSETS	2023	2022
Current Assets		
Cash - undesignated	\$ 739,625	\$ 549,678
Cash - designated	388,851	415,631
Assessments receivable, net of allowance	1,550,724	1,307,637
Accounts receivable	22,805	14,636
Inventories	64,415	46,004
Tracts held for Auction	30,818	25,731
Total current assets	2,797,238	2,359,317
Noncurrent Assets		
Property and equipment, net	662,836	586,742
Deferred tax asset	13,857	61,664
Total noncurrent assets	676,693	648,406
Total assets	\$ 3,473,931	\$ 3,007,723
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities		
Accounts payable	\$ 16,242	\$ 43,731
Accrued liabilities	1,164	30,680
Deferred Income	1,316,343	1,063,922
Taxes payable	7,181	13,473
Total current liabilities	1,340,930	1,151,806
Total liabilities	1,340,930	1,151,806
Members' Equity		
Contributed capital	94,075	94,075
Undesignated	304,467	304,467
Designated	356,798	356,798
Retained earnings	1,377,661	1,100,577
Total members' equity	2,133,001	1,855,917
Total liabilities and members' equity	\$ 3,473,931	\$ 3,007,723

See Notes to Financial Statements.

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.

STATEMENTS OF REVENUE AND EXPENSES

Years Ended December 31, 2023 and 2022

	2023	2022
Revenues		
Members' Assessments	\$ 1,058,578	\$ 694,866
Lodge operations, net of discounts	987,023	1,100,525
Interest and other miscellaneous income	30,550	46,143
Total revenue	2,076,151	1,841,534
Expenses		
Advertising	\$ 5,247	\$ 3,320
Credit card fees	38,829	46,920
Insurance	93,148	82,858
Licenses, fees, and permits	5,893	2,516
Lodge expenses	137,378	154,459
Office expenses	6,200	13,466
Other miscellaneous expenses	7,973	23,100
Payroll and benefits	876,918	917,930
Postage, printing, and internet	23,082	12,426
Professional fees	90,779	69,605
Property taxes	25,067	29,914
Repairs and maintenance	68,721	24,683
Software maintenance	14,826	12,637
Supplies and equipment	99,819	120,708
Telephone, utilities, and garbage	90,081	81,215
Vehicle	58,005	47,415
Penalty	239	-
Depreciation	104,538	84,980
Total expenses	1,746,743	1,728,152
Excess of revenue over (expense) before tax	329,408	113,382
Federal income tax	4,517	-
Deferred tax expense	47,807	31,673
Excess of revenue over (expense)	\$ 277,084	\$ 81,709

See Notes to Financial Statements.

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years Ended December 31, 2023 and 2022

	2023	2022
Balance, beginning of year	\$ 1,855,917	\$ 1,774,208
Excess of revenue over (expense)	<u>277,084</u>	<u>81,709</u>
Balance, end of year	<u>\$ 2,133,001</u>	<u>\$ 1,855,917</u>

See Notes to Financial Statements.

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

	2023	2022
Reconciliation of net income to net cash provided by operating activities		
Excess of revenue over (expense)	\$ 277,084	\$ 81,709
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	104,538	84,980
Deferred taxes	47,807	31,673
SBA loan forgiveness	-	(10,000)
(Increase) decrease in assets		
Accounts receivable	(251,256)	(96,098)
Inventories	(23,498)	(6,810)
Prepaid expenses and other assets	-	5,169
Increase (decrease) in liabilities		
Accounts payable - trade	(27,489)	35,552
Deferred income	252,421	100,073
Accrued expenses and other liabilities	(35,808)	14,254
Net cash provided by operating activities	343,799	240,502
Cash Flows From Investing Activities		
Purchase of property and equipment	(180,632)	(173,994)
Net cash used in investing activities	(180,632)	(173,994)
Net increase in cash and cash equivalents	163,167	66,508
Cash and cash equivalents:		
Beginning	965,309	898,801
Ending	\$ 1,128,476	\$ 965,309

See Notes to Financial Statements.

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
SEE ACCOUNTANT'S REVIEW REPORT

Note 1. 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, Inc. consists of approximately 5,000 property owners on approximately 190,000 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. These facilities were operated for the entire year. Based on the Supplemental Revenue for the Association, in 2023 these operations accounted for 49% of the revenue and in 2022 these operations accounted for 61% of the revenue.

Note 2. Summary of Significant Accounting Policies

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.

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.

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, 2023, and 2022 was \$29,592 and \$66,152, respectively. This balance represents Management's estimates of Owner's Assessments prior to 2022 deemed uncollectible.

Revenue from assessments is recognized in the period assessed on a cash basis as payments are received. 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 FINANCIAL STATEMENTS
SEE ACCOUNTANT'S REVIEW REPORT

Note 2. Summary of Significant Accounting Policies (continued)

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.

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.

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.

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.

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.

Tracts held for Auction: Property Tracts held for auction amounted to \$30,818 and \$25,731 at December 31, 2023 and 2022 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, and are included as inventory. Tracts that are donated are valued at the amount assessments due that are forgiven.

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.

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.
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Note 2. Summary of Significant Accounting Policies (continued)

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.

For Federal tax purposes, POATRI is taxed on all net income reduced by all losses from activities for which a profit motive exists. Any excess deductions may be carried forward to offset income of future tax periods. Any net 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, 2023, 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 2020.

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.

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.

Subsequent Events: The Association has evaluated subsequent events through October 7, 2024, the date on which the financial statements were issued.

The Association has concluded that there were no subsequent events that required adjustment or disclosure to the financial statements.

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.
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Note 3. Property and Equipment

Property and equipment at December 31 consists of the following:

	2023	2022
Land	\$ 142,101	142,101
Buildings and Structures	311,055	274,061
Improvements	596,525	559,366
Maintenance Equipment	340,519	340,519
Furniture and Equipment	49,741	49,741
Vehicles	189,333	81,673
Software	94,804	94,804
Construction and renovation in progress	-	1,181
	<u>1,724,078</u>	<u>1,543,446</u>
Accumulated Depreciation	<u>(1,061,242)</u>	<u>(956,704)</u>
Property and equipment, net	<u>\$ 662,836</u>	<u>586,742</u>

For the years ended December 31, 2023 and 2022, depreciation expense amounted to \$104,538 and \$84,980, respectively.

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

Note 4. 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 adopt an annual practice of increasing the annual member assessment by the amount of the annual increase in the Southwest CPI (Consumer Price Index).

In addition, with the last special assessment POATRI established a contingency fund for general financial emergencies, with a current balance of approximately \$225,000, and a capital Reserve Fund for unplanned equipment repairs or replacement, with a current balance of approximately \$164,000.

Designated funds, which aggregate approximately \$388,000 and \$416,000 at December 2023 and 2022 respectively, are held in separate accounts and are generally not available for operating purposes.

PROPERTY OWNERS’ ASSOCIATION OF TERLINGUA RANCH, INC.
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Note 5. Future Major Repairs and Replacements

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

	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
Total		\$ 1,094,500

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.

Note 6. Paycheck Protections Program

The Paycheck Protection Program (PPP) is a loan designed to provide a direct incentive for small businesses to keep their workers on their payroll under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and administered by the U.S. Small Business Administration (“SBA”).

In 2020, the Association was issued a PPP loan in the amount of \$144,445. Under the terms of the loan, certain amounts of the loan were eligible for forgiveness if the proceeds were used for qualifying expenses as described in the CARES Acts. The Association submitted a request for debt forgiveness to the SBA as stipulated in the PPP under the CARES Acts and on January 8, 2021, the full amount of \$144,445 from the loan was forgiven, in addition to interest accrued of \$1,029 and an additional SBA loan of \$10,000. The Association became aware of the forgiveness of the additional SBA loan in May 2023 and has been recorded in the current period’s financial statements.

PROPERTY OWNERS' ASSOCIATION OF TERLINGUA RANCH, INC.
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Note 7. Income Tax

The income tax provision charged to income is as follows for the years ending December 31, 2023 and 2022, respectively:

	2023	2022
Current- U.S. Federal	\$ 4,517	\$ -
Deferred- U.S. Federal expense	47,807	31,673
	<u>\$ 52,324</u>	<u>\$ 31,673</u>

The Entity files income tax returns in the U.S. Federal jurisdiction as well as in a state jurisdiction. The Entity is no longer subject to federal or state examinations by taxing authorities for years before 202.

Deferred taxes consisted of the following components as of December 31, 2023 and 2022:

	2023	2022
Assets		
Net operating loss carryforward	\$ 13,857	\$ 61,664
Total	<u>\$ 13,857</u>	<u>\$ 61,664</u>

A reconciliation between income taxes computed at the federal statutory rate and income tax expense as of December 31, 2023, and 2022 are as follows:

	2023	2022
Income taxes computed at federal statutory rate (21%)	\$ 69,176	\$ 23,810
Difference between tax and book depreciation	(16,902)	-
Net operating loss	(47,807)	(23,810)
Total tax payable	4,467	-
Deferred tax expense	47,807	31,673
Total	<u>\$ 52,274</u>	<u>\$ 31,673</u>