

PROPERTY OWNERS' ASSOCIATION  
OF TERLINGUA RANCH, INC.

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2009

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JOE L. TORRES, P.C.  
*Certified Public Accountant*

Bus: (432) 550-5882  
Fax: (432) 550-5893

MEMBER OF  
AMERICAN INSTITUTE OF CERTIFIED  
PUBLIC ACCOUNTANTS  
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

5000 E. University, Suite 3  
Odessa, Texas 79762

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**INDEPENDENT AUDITOR'S REPORT**

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

I have audited the accompanying balance sheet of Property Owners' Association of Terlingua Ranch, Inc. as of December 31, 2009 and the related statement of revenues and expenses, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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, 2009 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information on future major repairs and replacements on page 11 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



Joe L. Torres, P.C.  
Odessa, Texas  
April 2, 2010

Property Owners' Association of Terlingua Ranch, Inc.  
 Balance Sheet  
 December 31, 2009

	<u>2009</u>
<b>ASSETS</b>	
Cash-undesignated	\$ 144,749
Cash-designated for future repairs and replacements	110,092
Accounts Receivable-Members' Assessments	1,875,944
Allowance for Doubtful Accounts	( 572,052)
Inventories	12,598
Prepaid insurance and other receivables	10,462
Property, Fixtures, and Equipment, Net	497,028
Deferred Tax Asset	<u>99,000</u>
TOTAL ASSETS	<u>\$ 2,177,821</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>	
Accounts payable and accrued expenses	\$ 31,400
Deferred maintenance fee income (2010)	670,911
Line of Credit	-
Notes Payable	<u>32,753</u>
TOTAL LIABILITIES	735,064
Contingency	-
Members' Equity	
Undesignated	1,332,665
Designated for future repairs and replacements	<u>110,092</u>
TOTAL MEMBERS' EQUITY	<u>1,442,757</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 2,177,821</u>

See accompanying notes to financial statements.

Property Owners' Association of Terlingua Ranch, Inc.  
Statement of Revenues and Expenses  
Year Ended December 31, 2009

	<u>2009</u>
<b>REVENUES</b>	
Members' assessments – operations	\$ 744,513
Lodge and Resort Operations, Net	-
Interest and other miscellaneous income	10,532
Property Auction Proceeds, Net	<u>26,714</u>
	781,759
<b>EXPENSES</b>	
Payroll and Benefits	114,230
Telephone, Utilities, and Garbage	25,847
Insurance	28,396
Supplies and Equipment expenses	1,131
Repairs and Maintenance	35,745
Professional Fees	92,483
Property Taxes	9,575
Advertising and Newsletter Expenses	6,828
Postage, Printing, and Internet Expenses	17,720
Travel and Lodging	262
Vehicle Expense	15,223
Interest	6,229
Promotion	-
Credit Card Fees	895
Licenses, Fees, and Permits	2,118
Office Supplies and Leased Equipment	3,887
Other Miscellaneous Expenses	2,415
Software Maintenance	5,915
Depreciation Expense	48,363
Federal Income Tax Benefit	( 9,000)
Bad Debt Expense	<u>250,000</u>
	658,262
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u><u>\$ 123,497</u></u>

See accompanying notes to financial statements.

Property Owners' Association of Terlingua Ranch, Inc.  
 Statements of Changes in Members' Equity  
 Year Ended December 31, 2009

	<u>Total</u>	<u>Undesignated</u>	<u>Designated for Future Repairs and Replacements</u>
MEMBERS' EQUITY – January 1, 2009	\$ 1,319,260	\$ 1,216,173	\$ 103,087
Excess of revenues over expenses	123,497	116,492	7,005
Allocated to future repairs and replacements	-	-	-
Major replacements & additions	<u>-</u>	<u>-</u>	<u>-</u>
MEMBERS' EQUITY-December 31, 2009	<u>\$ 1,442,757</u>	<u>\$ 1,332,665</u>	<u>\$ 110,092</u>

See accompanying notes to financial statements

Property Owners' Association of Terlingua Ranch, Inc.  
Statement of Cash Flows  
Year Ended December 31, 2009

	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Excess of revenues over expenses	\$ 123,497
Adjustment to reconcile excess of expenses over revenues to net cash provided by operating activities:	
Loss on sale of assets	1,331
Depreciation	48,363
Deferred Income Tax Benefit	( 9,000)
(Increase) decrease in:	
Assessments receivable – members' assessments, net	( 30,523)
Prepaid insurance and other receivable	4,146
Inventories	3,999
Increase (decrease) in:	
Accounts payable and accrued expenses	9,328
Assessments received in advance	-
Deferred maintenance fee income	<u>4,899</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>156,040</u>
 <b>CASH FLOWS (FOR) INVESTING ACTIVITIES</b>	
Proceeds from sale of assets	6,210
Acquisition of property, equipment, and software	<u>( 5,928)</u>
<b>CASH FLOWS (FOR) INVESTING ACTIVITIES</b>	<u>282</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from borrowings	-
Debt repayment	<u>( 53,712)</u>
<b>CASH FLOWS (FOR) FINANCING ACTIVITIES</b>	<u>( 53,712)</u>
<b>NET INCREASE IN CASH</b>	<u>102,610</u>
 <b>CASH AT BEGINNING OF YEAR</b>	<u>152,231</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 254,841</u>
 <b>SUMMARY OF CASH ACCOUNTS</b>	
Undesignated	\$ 144,749
Designated for future repairs and replacements	<u>110,092</u>
	<u>\$ 254,841</u>
 <b>SUPPLEMENTAL DISCLOSURE</b>	
Income taxes paid	<u>\$ -</u>
Interest Paid	<u>\$ 6,229</u>

See accompanying notes to financial statements.

Property Owners' Association of Terlingua Ranch, Inc.  
Notes to Financial Statements

NOTE A – NATURE OF ORGANIZATION

Property Owners' Association of Terlingua Ranch, Inc. is incorporated as a not-for-profit corporation in the State of Texas 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 Property Owners' Association of Terlingua Ranch, Inc. Property Owners' Association of Terlingua Ranch, Inc. consists of 4863 property owners on approximately 188,383 acres located in Brewster County, Texas. The association maintains over 1000 miles of roadways for its members. The Association began its operations in November 1976.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable – Members' Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable at the balance sheet date represents fees due from property owners. The allowance for doubtful accounts as of December 31, 2009 was \$572,052. This balance represents Management's estimates of Owner's Assessments from 2005 to 2009 deemed uncollectible. In 2004, the Organization took complete responsibility for the collection of these assessments.

Members are billed annually in December for their annual assessments, which are due and payable in March.

Members Assessments receivable at the balance sheet date represent the total annual assessments billed to owners less the amount of assessments paid. Deferred maintenance fee income at the balance sheet date represents assessments billed, but not yet earned.

The Organization 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.

Basis of Presentation

The Organization 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 the Organization's, wherein title or other evidence of ownership is held directly by a CIRA.

Property Owners' Association of Terlingua Ranch, Inc.  
Notes to Financial Statements

Cash and Cash Equivalents

For purposes of the statement of cash flows, the organization considers all highly liquid investments with an initial maturity of the three months or less to be cash equivalents.

Income Taxes

The Association is classified as a nonexempt membership organization for federal tax and is tax exempt for state franchise tax purposes for the year ended December 31, 2009. It does not qualify as an exempt organization for federal income tax purposes. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions.

For federal tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership 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, which has graduated tax rates of 15% to 39% that are applied to net taxable income.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are recorded in the Association's financial statement at fair market value. The Association capitalizes personal property to which it has title at cost. All acquisitions of property and equipment in excess \$1,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized.

Depreciation

The Association's furniture and equipment are depreciated using the straight-line and the double declining balance method. The building and improvements are depreciated using the straight-line and double declining balance methods.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Owners' Association of Terlingua Ranch, Inc.  
Notes to Financial Statements

Inventories

Inventories are stated at the lower of cost or market determined by the first-in first out method.

NOTE C - PROPERTY, FIXTURES, AND EQUIPMENT

Property, Fixtures, and Equipment consists of the following:

	<u>2009</u>
Land	\$ 125,169
Building and Structures	222,881
Improvements	94,976
Maintenance equipment	335,476
Furniture and Fixtures	270,921
Vehicles	159,009
Software	<u>94,804</u>
	1,303,236
Accumulated depreciation	<u>( 806,208)</u>
	<u>\$ 497,028</u>

NOTE D – CONCENTRATION OF CREDIT RISK

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

NOTE E – NOTES PAYABLE

8.9% installment note payable to a bank, in monthly payments, including interest, of \$767 for 48 months; due in December 2010. The note is collateralized with a secured interest in a 2003 Chevrolet Silverado and a 2005 Ford F-250.

\$ 8,736

Property Owners' Association of Terlingua Ranch, Inc.  
Notes to Financial Statements

NOTE E – NOTES PAYABLE (Continued)

8.0% installment note payable to a bank, in monthly payments including interest, of \$1500 for 36 months; due in May 2011. The note is collateralized with a secured interest in a 2001 Mack Dump Truck, 2005 Ford F-250 and a 2003 Chevrolet Pickup	<u>\$ 24,017</u>
	<u>\$ 32,753</u>

Principal maturities of the mortgage note payable during the next three years are as follows:

Year Ending <u>December 31,</u>	
2010	\$31,270
2011	1,483
2012	-
	<u>\$ 32,753</u>

Interest expense for the year ended December 31, 2009 was \$6,529.

NOTE F – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Corporation's governing documents generally provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacements are needed. The board of directors, however, has chosen to establish a replacement fund and to accumulate funds for the estimated cost of future major repairs and replacements. Accumulated funds, which aggregate approximately \$110,092 at December 31, 2009, are held in separate accounts and are generally not available for operating purposes. It is the Corporation's policy to allocate interest earned by the replacement fund to the replacement fund.

NOTE G – RESORT OPERATIONS

On July 27, 2008, the Board of Directors voted to temporarily close the Terlingua Ranch Lodge operation as part of an overall budget reduction effort for 2008. The decision was announced to the Membership in a letter dated August 1, 2008. As of March 27, 2010, the resort operation remains closed pending a decision by the Board and the Membership as to the final disposition of the property.

## **SUPPLEMENTARY INFORMATION**

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS (UNAUDITED)  
DECEMBER 31, 2009

The Association board of directors conducted a study in March 2003 to estimate the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated 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.

The following information is based on the study and presents significant information about the components of common property. (Amounts are rounded to the nearest thousand dollars.)

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>
Cabins	2	\$ 200,000
Restaurant/Gift Shop	2	173,000
Furniture – Cabins/Restaurant	1 to 2	180,000
Other Buildings	2	166,700
Other Equipment	1 to 2	<u>\$ 91,200</u>
TOTALS		<u>\$ 810,900</u>