

AROUND THE RANCH

AUGUST 2007

PROPERTY OWNERS ASSOCIATION OF TERLINGUA RANCH, INC.

PO Box 638 TERLINGUA TEXAS 79852

(432) 371-2416

WWW.TERLINGUARANCH.COM

WWW.POATRI.ORG

EMAIL: OPSMGR@TERLINGUARANCH.COM

REPORT ON THE BUDGET FOR FISCAL YEAR 2008

BY DON BACKER, TREASURER

This July, the Board of Directors reluctantly, but unanimously, approved a deficit budget projection for the fiscal year 2008, based on the recommendation of the Budget & Finance Committee. Two major factors affecting next year's budget requirements are the federally-mandated increase in the minimum wage, and the effects of increased fuel prices on goods and services.

We are already experiencing an increase in the cost of such materials as tires, wood, plumbing parts, vehicle and heavy equipment repair parts and service, which has negatively impacted the 2007 budget. There is no indication that this trend upward in costs will abate over the next 18 months. Therefore, we have increased

projected expenses for supplies, repair & maintenance by \$20,000, and \$28,000 for fuel and repairs to vehicles and heavy equipment.

Although the federal minimum wage increase directly affects only a portion of our wage complement, the Budget & Finance Committee recommended a two-step parity raise for all employees consistent with the minimum wage percentage increases.

Not only have most of our staff not received any increase in wages during the last two years, we feel that to neglect compensation at this time will negatively affect morale. And we may find POATRI in the unenviable position of losing long-term, fully-trained personnel and being faced with

higher wage demands for new, untrained staff.

The increase in expenses associated with transportation costs are pretty much out of our control – vehicles require maintenance and fuel, and motorgraders experience worn tires that must be replaced. The longer and harder we work our crews and equipment, the higher the cost. If our operators cannot make a living wage we will lose them to other employers. That will greatly reduce our overall expense picture and make our budget look really good. But at what cost to our roads?

The same increased costs associated with operating the resort facility are also not within our control. As the costs of

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NEXT MEETING OF POATRI'S BOARD OF DIRECTORS:

SATURDAY, OCTOBER 27, 2007 – 10 AM AT TERLINGUA RANCH HEADQUARTERS

REPORT ON THE BUDGET...

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materials, supplies, and equipment increase, we will increase our charges to a certain extent. However, it is impossible to project what impact higher rates may have on actual income, so we have chosen to be conservative in our income projections.

Where revenues and expenses are within POATRI's control all possible steps to control costs have been, and will continue to be, exercised. The costs that are economically driven, such as fuel costs, can only be "controlled" by reducing service. The decision regarding wage parity must be regarded outside the "bottom line" and consideration must be given to the cost of turnover, loss of morale and increasing wage levels for new hires.

The Budget & Finance Committee and your Board of Directors feel that the 2008 budget as approved this July is the best compromise available to us without a major revamping of POATRI's purpose and mission. The funding of this budget will be a decision for the membership in the January, 2008 election cycle when owners are asked to vote on an assessment increase.

Editor's Note: Jack Staton, President of the POATRI Board, ceded the regular President's Message space in order to allow as much space as possible for information regarding the critical financial issues before the Board and Membership.

REPORT FROM THE FINANCIAL PLANNING TASK FORCE

MEMBERS: JIM MILLER, CHAIR, LIZ DEMETRI, BILL LOVE, LARRY GORDON, BARBARA TRAMMEL, CLARA WILLIS, ED MARCATO

The FPTF was asked to recommend the needed levels for the Capital Reserve and Contingency Funds and review the current assessment structure.

- The committee reviewed all the outstanding capital projects and, based on the cost of these projects, recommended that the Capital Reserve Fund be established at \$200,000.

- The committee also recommended the Contingency Fund be established at \$150,000 to cover unplanned, emergency expenditures and so that we can borrow from ourselves for our

operations cash flow needs and thus avoid paying interest to a bank.

The FPTF reviewed both the flat rate Assessment method, voted in two years ago by property owners, and various other methods based on acreage and tract charges.

A preliminary report of findings and recommendations was presented at the July Board meeting. Final recommendations will be presented at the October Board meeting, and then sent out in the ballot package for property owner vote.

Notifying POATRI and the Brewster County Tax Assessor of changes in address is the responsibility of the owner.

BREWSTER COUNTY bills property taxes in early November each year. Property taxes are due no later than January 31st of the following year. If you do not receive your tax notice, it is your responsibility to contact the tax office. Phone: (432) 837-2214. Open Monday-Friday, 8 am – Noon and 1 pm – 5 pm.

POATRI bills annual assessments in early December of each year for the upcoming year. Annual assessments are due no later than March 31st of the assessment year. If you do not receive your annual assessment statement, it is your responsibility to contact the POATRI office. Phone: (432) 371-3146 or (432) 371-2426. Office hours are variable. Leave a message on voicemail with a call back number.

Non-receipt of either a tax bill or an assessment statement does not relieve the owner of the obligation to pay. Accumulation of delinquent taxes and/or assessments can lead to foreclosure either by Brewster County or by POATRI.

SUMMARY CONCLUSION OF THE BUDGET & FINANCE COMMITTEE REPORT TO THE BOARD – JULY 2007

We seem to be going through a phase, for the last three years or so, where we are forced to continually address a series of economic realities affecting the Ranch.

- In 2005 an operating deficit required the \$51 SIA charge to avoid an operations cash flow crisis caused by too many years with no increase in fees. This temporary solution allowed us time to ask the owners to vote on a permanent assessment increase to bring the operational budget to a realistic level.

- After a vote of the membership, the assessment was increased substantially in order to reverse the steady deterioration of our Ranch roads. This was done due to the outcry from property owners over poor road maintenance, and in just two years we have made

notable progress.

- The lawsuit has forced certain expenses on us and made us address the need for a permanently funded Capital Reserve Fund and Contingency Fund, which we are addressing both through the NRC and the Financial Planning Task Force recommendations.

- And now the increases in the minimum wage, fuel and maintenance costs, building materials and supply costs, etc., are forcing us in our 2008 budget process to deal with pricing issues far beyond the automatic CPI inflation rate authorized by the amended TRMA.

In summary, property owners today consistently say our Ranch roads are in the best shape they have ever been. The road improvements have happened over just the past

two years after the assessment was increased. The new assessment level met the needs for road maintenance, but was not designed to cover needed capital projects, unplanned lawsuit and legal expenses, a Contingency Fund, or the latest high inflation issues such as the minimum wage increase and fuel related expense increases.

The only responsible position we can take is to face these issues directly, communicate the information we have to our fellow property owners, and take appropriate action to keep POATRI functioning, financially stable, and providing services to property owners.

Committee: Don Backer, Chair, Jerry Brewster, Bonnie Hill, Dave Mattson, Diana Wysocki, Ed Marcato.

ASSESSMENT YEAR – 2008 ELECTION VOTERS LIST

The 2008 Assessment Year will begin November 27, 2007 to be in compliance with the POATRI By-laws affecting the January Members Meeting and Election of Directors.

The 2008 Assessment will be charged on that date. Owners with past due balances as of November 27, 2007 will become not in good standing and will not appear on the Voters List for purposes of receiving a ballot. Ballots will be mailed only to those members appearing on the official Voters List for the 2008 Election.

Membership for the purposes of the election will be determined by the receipt in the POATRI office of copies of deeds filed with the Brewster County Clerk no later than November 26, 2007 and payment of all fees due POATRI.

Membership for the purposes of running for a seat on the Board of Directors will be determined by the receipt in the POATRI office of copies of deeds filed with the Brewster County Clerk no later than October 26, 2007 and the payment of all fees due POATRI.

Public Service Announcement

Bill Callaway, a Terlingua Ranch property owner, will be removing junk cars and trucks from Terlingua Ranch and surrounding area beginning November 1st, 2007 through February 2008.

If you have autos you wish to dispose of you may contact Mr. Callaway at (432) 371-3074 or (608) 378-4546, or e-mail at: wwcallaway@yahoo.com.

There may be a small fee to cover fuel costs depending on distance from disposal site.

SUMMARY OF RESOLUTIONS FROM BOARD OF DIRECTORS MEETING, JULY 28, 2007

BY LIZ DEMETRI, SECRETARY

Directors present: Don Backer, Jerry Brewster, Liz Demetri, Jim Miller, T.J. Ramey, Tom Durham, Kathleen O'Keefe and Janet Sullivan until noon. Absent: Jack Staton.

The following resolutions were presented and passed unanimously:

- That Article 4.10f be amended to read: In October of each year the Board of Directors shall review the average for the period covering from September of the previous year through August of

the current year, of the monthly United States Department of Labor, Bureau of Statistics, All Urban Consumers (South Urban) consumer Price Index on which the CPI in Section I of the Maintenance Agreement is based. Upon this annual review, the Board shall adjust the assessment for the coming year by adding to that assessment an amount equal to the preceding 12 month average. Motion by Don Backer, second Tom Durham. 7 ayes, 0 nays, 2 absent-Sullivan & Staton.

- That the Budget for 2008 be approved as presented. Motion by Don Backer, second Jim Miller. 7 ayes, 0 nays, 2 absent-Sullivan & Staton.

- That "The Rest of the Story" section of the website be removed and replaced with FAQ-Coming Soon. Motion by Kathleen O'Keefe, second by Don Backer. 7 ayes, 0 nays, 2 absent-Sullivan & Staton.

A motion presented by Janet Sullivan to change the quarterly "Newsletter" to "Quarterly Report" was tabled until the October meeting.

ELECTION PROCESS REVIEW COMMITTEE

BY JIM MILLER, CHAIR

Overview

- The Election Review Committee presented a report of its actions to Board at the July 28, 2007 meeting.

- The Committee's primary activity was to document the entire election process and propose to incorporate the documented process into the POATRI Policies and Procedures Manual.

- The Committee also solicited and included several improvements to the election procedures, including a new requirement for the Board Secretary, or other designated Board Member, to be present for the election count process on the day of the January Board meeting, and to receive the election

results from the Independent Vote Counter for delivery to the Board.

Follow Up Action Item

- It was determined at the July 28 Board meeting that the Election Procedures be reviewed by POATRI legal counsel, and that any appropriate changes be made before incorporation into the POATRI Policies and Procedures Manual.

- The Committee will have legal counsel review the document, make any required changes, and present the final Election Procedures at the next Board Meeting for incorporation into the Policies and Procedures Manual.

LAWSUIT UPDATE

BY RUDY CANO, ATTORNEY

The lawsuit filed by several property owners against POATRI and several current and former directors is in the "discovery" stage of litigation. The parties have exchanged and responded to written discovery requests and several oral depositions have been taken by both the plaintiffs' attorney and by defense counsel.

The case is currently set for trial on November 13, 2007 in the 412th District Court of Brazoria County, Texas. Should the trial setting change or if there are any significant developments, such information will be posted on POATRI's website in a timely manner and reported in the next quarterly newsletter.

POATRI NEWSLETTER COMMITTEE REPORT — JULY 2007

BY JANET SULLIVAN, CHAIR

In looking at the focus of the POATRI newsletter, the main question that we found needed to be answered was: Is Terlingua Ranch a community like it was in the 1970's or is it a corporation? We realized that POATRI is a business, whereas Terlingua Ranch is a group of different cultures: retirees, hunters, environmentalists, Ghost Town, river runners, new owners, long-term owners, and many, many more.

Following several conversations and meetings, this committee would like to make this statement:

POATRI is the Corporate Entity of the diverse communities of Terlingua Ranch.

The committee also realized that the corporation needs to be reported on, rather than the communities. Therefore, the newsletter is a quarterly report, just as any other corporation provides. This has evolved over the last 4-5 years into such a report, and we see it as being appropriate. We also suggest that the name be changed from "newsletter" to "quarterly report."

In the Policies & Procedure manual, reference is made to "newsletter" in "Filling Vacan-

cies" and "Communications Policy, section a)" and "Topics Guidelines #3." We ask that these be changed to show "Quarterly Report."

We also recommend that an annual or semi-annual newsletter be provided. This newsletter would consist of information that is more on the light side and could include history, plants, excerpts from old newsletter, etc. Adding this extra publication would financially impact the corporation, however.

We also recommend that the General Manager be the editor-in-chief with editorial authority.

OPERATIONS REPORT For the Period Ending 6/30/07

BY ALIDA LORIO, GENERAL MANAGER

Accomplishments during the last period:

- **Financial**

NRC collections to date total \$74,810, or 22% of billed. Owner response has varied between confused and concerned, but generally supportive. The Board is working on a bylaws amendment to limit authority for such charges. Assessment collections are ahead of budget due to reminder billings, quicker follow up on delinquencies, and an increase in newer members who pay timely. Resort revenues are ahead of budget and expenses below budget to significantly reduce the projected year end loss.

- **Road Maintenance**

Started the Sawmill Road repair, but with continued rain we are concentrating on quick fixes until the end of the rainy season. Our major repair projects are ongoing as budget permits.

- **Resort**

Occupancy is down 2% overall from the last three years; we're holding expenses down, but seeing a general increase in costs of supplies and food due to increased transportation costs which will affect our bottom line. A rate increase for the motel rooms and the RV sites will go into effect September 1, 2007.

- **Significant personnel issues**

We have been deliberating maintaining a short-staffed position to help with expenses, but must begin to fill certain important positions in order to maintain services.

- **Other**

The dedication of the last three miles of Terlingua Ranch Road is still pending due to other road issues facing Brewster County at this time. Our County Commissioner has assured us that we will see some progress soon. Brewster County has installed speed limit and caution signs on Terlingua Ranch Road.

TREASURER'S REPORT: FOR THE PERIOD JAN. 1 THRU JUNE 30, 2007

BY DON BACKER, TREASURER

Revenue – Cash Collections

As of June 30 we have collected \$ 601,392 which includes \$381,617 from Assessments, \$74,810 from the NRC, \$4,998 in volunteer payments from exempt owners, and \$137,749 from Resort revenues.

Our assessment collections are \$102,494 above our budget for the first six months, and we are seeing an improved rate of collection of both current year and prior year assessments. We think that more property owners are paying their current fees earlier because they understand the financial needs of the Ranch. Past due collections are greatly enhanced due to the aggressive use of demands and liens, as well as sending additional billings, which are all part of our collections program.

Resort revenues for the first half were \$10,249 above our forecast. Resort expenses were again below budget, as they were in the first quarter, by approximately \$10,000, resulting in a net loss or shortfall of \$22,293, well below the projected shortfall of \$41,350. It should be noted, however, that most of the expense reduction was due to being short staffed, and we cannot continue operating this way and maintain employee morale.

Ranch Expenses

On the Assessment side

expenses were \$9,300 over budget for the first six months. However, I think it is important to understand some of the particular expense areas that affect us going forward, so I would like to provide the following detailed information:

We were under budget in payroll by \$18,000 due to being short staffed. But, just as with staffing on the Resort side, we cannot continue to operate without filling these positions.

Insurance and professional fees, (not including lawsuit expenses) are over budget approximately \$20,000. We are requiring more legal services because we are seeing more threats of lawsuits, we have gating issues in process with an attorney, and because some of the issues in the lawsuit require us to use legal counsel before making certain decisions.

In the first quarter we incurred direct legal defense expenses of \$21,000, prior to POATRI being named in the lawsuit. Since POATRI was included in March, the direct legal defense expenses are now paid by our insurance and there were no further direct legal defense expenses in the second half of the year. Part of the NRC will be used to repay operation for all lawsuit expenses not covered by insurance.

This year we have seen

major price increases in fuel, equipment, parts, and building materials that have caused us to be over budget by about \$12,000 cumulatively in the categories of Vehicle Expense, Heavy Equipment, Repairs and Maintenance and Supplies & Equipment.

We were also under budget by about \$12,000 in Office and Other Administrative expenses, and over budget in collections expenses by about \$6,000.

In summary, these items reflect some of the issues that we are dealing with in our 2008 budget.

Non Recurring Expense Charge (NRC)

The \$100 per owner NRC was an amount that resulted from the input and discussion by property owners attending the April workshop. Since receiving the printed explanation the property owner responses have been quite reassuring with the office receiving a significant number of positive phone calls and emails of support.

As of June 30, we have collected approximately \$75,000 in NRC funds, and the monies are being divided equally among three accounts: Operations Account to recover the lawsuit related expenses, a Contingency Fund Account to cover future unanticipated Operations emergencies, and the

Capital Reserve Account for capital repairs and improvements to Ranch facilities and equipment.

When the August 31 deadline for the NRC is reached, the Board will be asked to solicit third party investment services to place the Contingency and Capital Reserve Funds in the best investment vehicles offering safety, liquidity, and the highest rate of return.

Financial Audit

The final 2006 financial statements are now available based on our audit which was completed in the first quarter.

Short Term Line of Credit

In 2006 we borrowed the same amount to support Operations as we did in 2005, \$55,000. We then had to borrow an additional \$15,000 to pay lawsuit expenses. As of June 30 we have retired all of the short term debt and have no outstanding balance.

Financial Reports

All of our financial statements and other reports are available on the web site, and those without computer access may request a copy from the office.

2007 Budget Deficit

When we revised the 2007 budget, due to the lawsuit expenses and our 2006 collections information, we came up with a deficit of \$161,000.

The NRC is planned to cover

\$84,000 of the projected deficit, specifically lawsuit related expense, leaving a deficit balance of approximately \$77,000 for 2007. We have been and are working to reduce the deficit by the following.

As of June 30 the resort deficit has been reduced by \$21,000, and we are hoping to reduce it further by another \$10,000 by the end of the year. This will reduce the overall 2007 deficit to \$46,000.

We plan to reduce this deficit, hopefully to zero, by collections from the following sources: Past due account balances from prior year assessments, which are being collected at a higher rate as previously mentioned.

Land sales through our collection programs including Brewster County Tax foreclosure sales, and POATRI deed-back auctions for properties deeded over in lieu of paying fees.

Even though we may be able to eliminate our 2007 deficit with these creative efforts, I think the process and risk make it clear that we should not get this far into a year without having a definite plan for a balanced budget. If we end a year with a deficit we are essentially mortgaging the future of the Ranch.

I plan to do everything I can, along with the Budget and Finance Committee, to see that we have a balanced budget, or a specific plan to get there, well before the end of the first quarter of the year.

Election Announcement

There will be three seats on the POATRI Board of Directors to be filled during the January 2008 elections. Owners wishing to run for these vacancies may obtain an application from the POATRI office beginning September 1, 2007. The completed application must be received by POATRI no later than Friday, October 26, 2007 to be included in the January election.

Check the following to ensure that you can vote in the upcoming January, 2008 election:

Is my address correct?

Does POATRI have a copy of my deed?

Am I current on all my fees and assessments?

Make sure that I complete the ballot and mail it back to the address listed on the ballot for receipt no later than January 25, 2008.

Remember that mail delivery is not consistent during the Christmas season so mail early to ensure receipt.

Ballots can only be received at the PO Box listed on the ballot....all other addresses will invalidate my ballot.

Make sure that your friends who own property here have received their ballots. Encourage everyone to VOTE.

SUCCESSION PLANNING & MANAGEMENT REORGANIZATION TASK FORCE REPORT – JULY 2007

BY JERRY BREWSTER, CHAIR

The group met in June and discussed ideas for the short term solution of acquiring potential candidates for General Manager and/or interim General Manager. The management reorganization will be discussed in future meetings of the group as part of the long term solution.

Julianne Braun and Bonnie Hill volunteered to sanitize my politically incorrect and undiplomatic language while

incorporating same into the comments of the group as a whole. The result is a brief announcement that can be placed on the POATRI website and placed in the next POATRI newsletter. I thank the group and particularly Julianne and Bonnie for their efforts and patience in providing this recommendation to the board. It is possible that some good candidates for a demanding and thankless job may come

forward.

Members of the Succession Planning & Management Reorganization Task Force:

Julianne Braun, Bonnie Hill, John Hillje, Larry Gorden, Alida Lorio, Jack Staton and Arthur Worley.

Editor's note: The announcement to which this report refers was tabled until the October meeting in order to clarify and revise some of the wording.

POATRI CASH FINANCIAL INFORMATION SUMMARY FOR THE 6 MONTHS ENDED JUNE 30, 2007

	<u>Cash Position</u>	<u>Comments & Supporting Information</u>
Cash Balance Jan. 1st	75,189	
Cash Collected Jan 1- June 30	601,392	2006 assessments collected = \$291,128 plus \$81,317 in Dec. 2006 = 69% of 2007 assessment, minus allowance for bad debt
LESS		
Expenses Paid	394,608	Total expenses are 1.2% below budget; Resort expenses 3.5% below budget
Assets Purchased	19,757	Telephone system, carpet, room accessories, TRIPOD improvements
Debt Service	131,106	Line of credit, road graders, well property, trucks, TRIPOD design, insurance
Year End 2006 AP/s	<u>28,024</u>	Expenses accrued in 2006 carried forward
Cash balance June 30	103,086	
LESS		
	22,766	Cash reserved for Capital Reserve Fund
	<u>20,000</u>	Cash reserved for contingency fund
	60,320	Cash balance available for operations
		<u>POATRI Financial Information Comments & Supporting Information</u>
Assessment Receivables Balance		
Current & past due:	641,184	2007 Assessments \$251,252; Total past due \$389,932
NRC Receivables balance:	416,096	\$494,300 billed; \$60,000 identified as uncollectible: \$105,000 identified as slow pay
Provision for Doubtful Accounts		
Past due assessments:	<u>-215,943</u>	Does not include 2006 estimate of \$91,000 slow pay, or 2007 uncollectible of \$85,000, or 2007 estimate of \$93,000 slow pay
Total Assessment/NRC Receivables	841,337	

We will continue to improve this report and present it in the newsletter.

A complete set of financial statements is produced every quarter and made available to you at www.poatri.org.

A PERSONAL MESSAGE TO TERLINGUA RANCH PROPERTY OWNERS

BY ALIDA LORIO, GENERAL MANAGER OF POATRI

The position I currently hold with the Association is a unique one within this organization. Oversight of the daily operation of road maintenance, assessment collections, the resort facility and the day to day finances, gives me more concrete, real knowledge of the requirements and capabilities of those operations than any other individual can possess without actually doing my job.

And because I am included in the decision making process, as a source of information, I am privy to the deliberations and discussions of the advisory committees, task forces, professional advisors and the Board, which sets policy and makes many of the long term decisions that affect us all.

I also interact, on an individual basis, with a larger portion of our membership than most, if not all, other members and owners. None of this makes me particularly smarter or better at knowing what is best for POATRI or for Terlingua Ranch. It simply puts

more knowledge and information at my disposal and gives me access to a "bigger picture."

Terlingua Ranch, as a state of mind and physical presence, is an incredibly wonderful bit of the universe. Many of us have fallen in love with it over the years. Many of us have purchased a piece of it in order to experience its beauty, its peace and its spirit. And for most of us, all we really want is to be left alone to experience it in our own way.

We want access to our property over roads that are passable at least a majority of the time. Many of us want access to the resort facility and don't mind paying a fair price to keep it open. Some of us need access to water, the bathhouse and laundry, not to mention the pleasure of the swimming pool on a hot day.

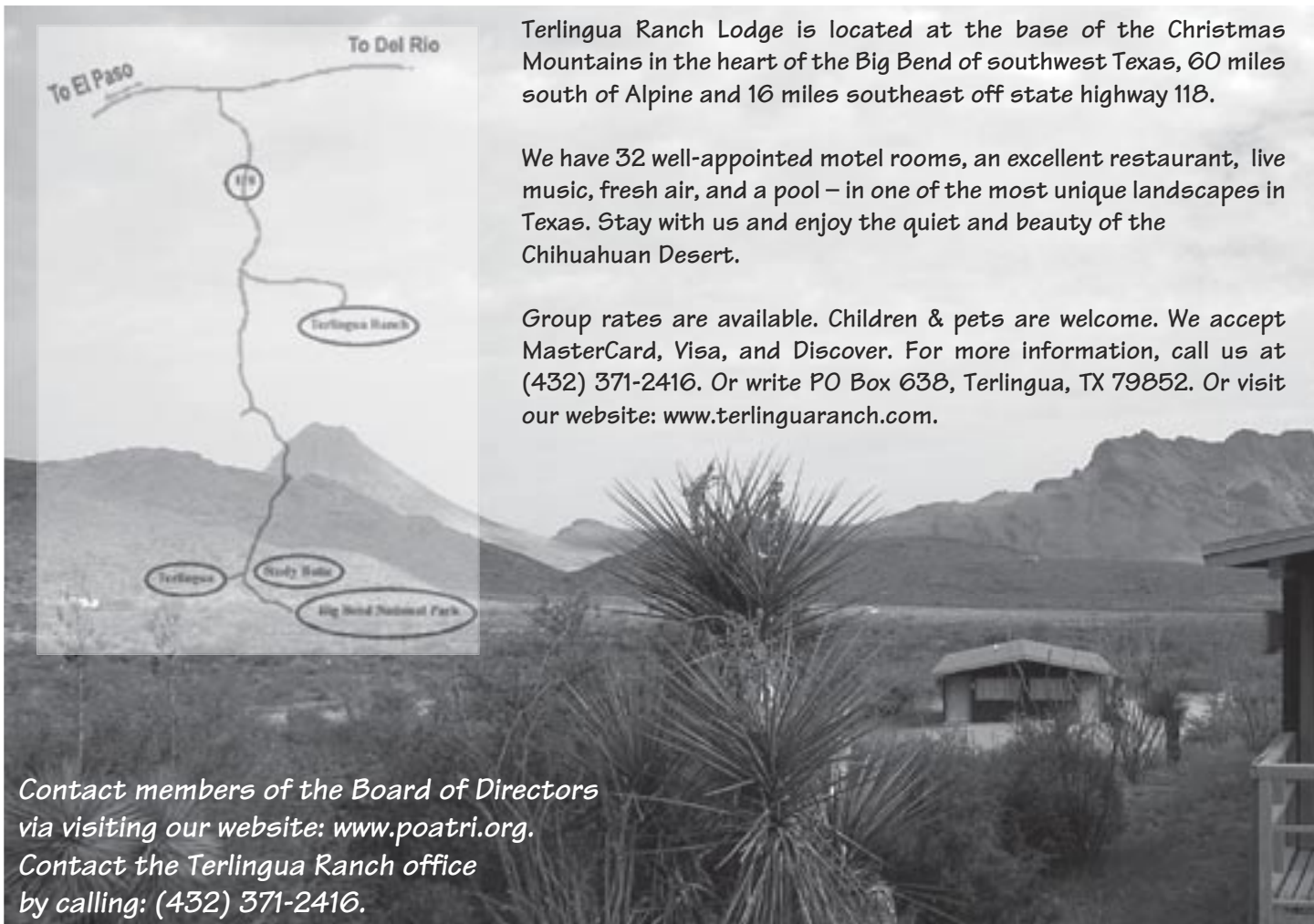
Most of us do not want to be dragged in to the internecine spats among the minorities whose political stance depends upon how much negativity they

can bring to Board meetings, committee meetings and director elections. The anger that fuels this negativity is wasteful of everyone's energy, and its only accomplishment thus far is to create "war" where there should be cooperation and teamwork. And in the end, if it is allowed to continue, this anger will destroy the peace, the beauty and the very future of Terlingua Ranch.

As one owner wrote recently, "I can't express how steamed up I am about this organization not being able to get along with itself." Well, from the perspective of the bigger picture, the majority of this organization gets along with itself just fine. In the larger scheme of things the fighting minorities are just the "tail of the dog" that no matter how hard it wags, must, in the end, follow where the majority leads.

Once again, I urge the silent majority to answer the age-old question: Do you want to be part of the solution?





Terlingua Ranch Lodge is located at the base of the Christmas Mountains in the heart of the Big Bend of southwest Texas, 60 miles south of Alpine and 16 miles southeast off state highway 118.

We have 32 well-appointed motel rooms, an excellent restaurant, live music, fresh air, and a pool – in one of the most unique landscapes in Texas. Stay with us and enjoy the quiet and beauty of the Chihuahuan Desert.

Group rates are available. Children & pets are welcome. We accept MasterCard, Visa, and Discover. For more information, call us at (432) 371-2416. Or write PO Box 638, Terlingua, TX 79852. Or visit our website: www.terlinguaranch.com.

Contact members of the Board of Directors
via visiting our website: www.poatri.org.
Contact the Terlingua Ranch office
by calling: (432) 371-2416.

PO Box 638
TERLINGUA TEXAS 79852



RETURN SERVICE REQUESTED.