

DRAFT

**TIERRA GRANDE IMPROVEMENT
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

December 31, 2018 AND 2017

TIERRA GRANDE IMPROVEMENT ASSOCIATION, INC.

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Independent Accountant's
Review Report

To the Board of Directors
Tierra Grande Improvement Association,
Inc. Belen, New Mexico

We have reviewed the accompanying statement of financial position of Tierra Grande Improvement Association, Inc. (the "Association") as of December 31, 2018, and the related statement of activities and cash flows for the year then ended. 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.

The financial statements of Tierra Grande Improvement Association as of December 31, 2017, were reviewed by other accountants whose report dated May 15, 2018, stated that based on their procedures, they are not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2018 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Baldwin Accounting & Consulting, LLC

Albuquerque, New Mexico
May 23, 2019

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FINANCIAL STATEMENTS

TIERRA GRANDE IMPROVEMENT ASSOCIATION, INC
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 212,482	222,075
Certificates of deposit	283,799	233,175
Assessments receivable and accrued interest on delinquent assessments, less allowance of \$10,510 in 2018 and \$7,500 in 2017	145,648	161,530
Deferred charges related to foreclosed property	109,694	101,686
Prepaid assets	13,262	14,140
Total current assets	764,885	732,606
Property and Equipment		
Land held for investment	82,139	106,247
Land	281,893	281,893
Property, equipment, and leasehold improvements, less accumulated depreciation of \$780,799 in 2018 and \$783,291 in 2017	4,609	7,394
Total property and equipment	368,641	395,534
Other assets	300	300
Total assets	\$ 1,133,826	1,128,440
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 46,201	47,671
Unrestricted Net Assets	1,087,625	1,080,769
Total liabilities and net assets	\$ 1,133,826	1,128,440

TIERRA GRANDE IMPROVEMENT ASSOCIATION, INC
STATEMENTS OF ACTIVITIES
December 31, 2018 and 2017

	2018	2017
Revenues		
Annual assessments	\$ 100,150	124,933
Donated land	1,000	2,376
Gain (loss) on land sales	(2,371)	18,695
Interest and other income	15,634	14,870
	<u>114,413</u>	<u>160,874</u>
Total revenues	114,413	160,874
Expenses		
Depreciation and amortization	3,508	4,077
Salaries and directors' fees	42,141	34,409
Donated assets	100	28,286
Legal and professional	13,708	15,216
Office	22,252	24,734
Insurance	14,156	13,752
Payroll taxes	2,885	2,276
Property taxes	111	750
Property maintenance	2,481	9,171
Other operating and administrative expenses	6,215	5,452
	<u>107,557</u>	<u>138,123</u>
Total expenses	107,557	138,123
Change in net assets	6,856	22,751
Net assets, beginning of year	<u>1,080,769</u>	<u>1,058,018</u>
Net assets, end of year	<u>\$ 1,087,625</u>	<u>1,080,769</u>

See Notes to Financial Statements.

TIERRA GRANDE IMPROVEMENT ASSOCIATION, INC
STATEMENTS OF CASH FLOWS
December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 6,856	22,751
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gain) loss on land sales	2,371	(18,695)
Donated land	(1,000)	(2,376)
Donated fire station to the City	-	28,286
Depreciation and amortization	3,508	4,077
Changes in assets and liabilities		
Assessments receivable and accrued interest on delinquent assessments	15,882	(16,113)
Deferred charges related to foreclosed property	(17,821)	(23,715)
Prepaid assets	878	(62)
Accounts payable and accrued expenses	(1,470)	1,260
Net cash provided by operating activities	<u>9,204</u>	<u>(4,587)</u>
Cash flows from investing activities		
Proceeds from sale of land	55,212	22,026
Net change in land held for investment	(24,108)	7,058
Net change in land	-	12,700
Purchase of property and equipment	723	-
Reinvested earnings on certificates of deposit	(50,624)	(50,573)
Net cash used by investing activities	<u>(18,797)</u>	<u>(8,789)</u>
Net decrease in cash and cash equivalents	(9,593)	(13,376)
Cash and cash equivalents, beginning of year	<u>222,075</u>	235,451
Cash and cash equivalents, end of year	<u>\$ 212,482</u>	<u>222,075</u>

See Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General. Tierra Grande Improvement Association, Inc. ("TGIA" or the "Association") is a New Mexico not-for-profit corporation organized for the purpose of promoting and developing the common good and social welfare of the community near Rio Communities, New Mexico, called Tierra Grande.

Cash and cash equivalents. For purposes of reporting the statements of cash flows, TGIA considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all certificates of deposit with a maturity of three months or less to be cash equivalents.

Assessments receivable and allowance for doubtful accounts. Assessments receivable represent charges due from members. They are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts of unpaid assessments using historical trends of collection of unpaid assessments and amounts recouped from foreclosure sales. Based upon their assessment, management has determined the allowance of \$10,510 at December 31, 2018, which was increased from \$7,500 from 2017, is adequate to absorb possible losses. Assessments receivable collected that were previously written off are recorded as income when received.

Land. Land and land held for investment are undeveloped holdings that are owned by TGIA. Land held for investment is recorded at fair value as determined by recent sales of similar lots, at the date of foreclosure.

Property and equipment. TGIA's policy is to capitalize disbursements for property and equipment in excess of \$1,000. Items with a cost of less than \$1,000 are expensed in the year of acquisition. Property and equipment are recorded at cost. Depreciation on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Building	25 years
Leasehold improvements	3 years
Property improvements	10-15 years
Office equipment and furniture	5-7 years

Annual assessment revenue. TGIA is financed primarily through annual fees assessed to members in Tierra Grande. Landowners live in various parts of the country. The assessments are recognized as income at the time they are levied.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The annual assessments are levied on October 1 of each year and are due before January 1 of the following year. If the assessments are not paid by January 1, they become delinquent, and TGIA adds an additional interest charge of 8% per annum to the assessment. Interest is recognized as it is earned. If the assessments are not paid within three years, TGIA may place a lien on the lots against which the assessments were levied.

<u>Lot Size</u>	<u>Annual Assessment</u>
5 but less than 9.99 acres	\$ 30
10 but less than 19.99 acres	45
20but less than 39.99 acres	60
40 acres and <i>over</i>	75

Property maintenance. While major improvements and betterments such as phone lines, and fencing are capitalized as property and equipment, smaller improvements and maintenance costs are expensed. Minor improvements, property maintenance, and surveys totaling \$2,481 in 2018 and \$9,171 in 2017, were expensed.

Income taxes. TGIA is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(4).

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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

Subsequent events. Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements.

The Association has evaluated subsequent events through May 23, 2019, which is the date the financial statements were available to be issued.

New Pronouncements. FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update were issued to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, and upon adoption, the Company will be required to disclose qualitative and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

quantitative information about its contracts with customers, the significant judgements and changes in those judgements as well as any assets recognized from the costs to obtain or fulfill a contract with a customer. The amendments in this update are effective for fiscal years beginning after December 15, 2019. Early adoption of ASC Topic 606 is permitted for public business entities and certain other specified entities only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has not yet adopted Topic 606.

FASB has issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this update were issued to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted; however, the Company has not yet adopted.

NOTE 2. CONCENTRATIONS OF CREDIT RISK

TGIA, in the ordinary course of business, sometimes maintains bank balances in excess of FDIC insurance limits. However, the Association routinely evaluates the credit worthiness of the financial institution and it is the Association's belief that the financial institution does not pose TGIA to significant risk of loss.

NOTE 3. DEFERRED CHARGES RELATED TO FORECLOSED PROPERTY

TGIA forecloses on lots for nonpayment of past assessments. Most of such lots have been sold to the public in annual auctions. At December 31, 2018 and 2017, there were \$109,694 and \$101,686, respectively, of legal and title costs incurred during the process which are expected to be recaptured, upon the sale of the foreclosed lots. During 2018 and 2017, TGIA received \$55,797 and \$26,555, respectively, related to recovering costs of foreclosing pertaining to outside party purchases, other than an auction.

NOTE 4. DONATED LAND

During 2018, TGIA received two donated lots at an estimated fair value of \$1,000. During 2017, TGIA received four donated lots at an estimated fair value of \$2,376. Estimated fair value is determined based on land sales in the area.

NOTE 5. COMMITMENTS

The Association has entered into a long-term lease commitment for office space until August 31, 2023 and a copier until August, 31, 2023. Costs incurred and charged to operations under the agreements totaled \$7,129 and \$5,100 for the years ended December 31, 2018 and 2017. Future commitments under these long-term leases are as follows:

Years ended December 31:	
2019	\$ 7,616
2020	7,616
2021	7,616
2022	7,616
2023	<u>5,077</u>
	\$ 35,541

NOTE 6. DONATED FIRE STATION

During 2017, TGIA donated the fire station to the City of Rio Communities at the net book value of \$26,963.