SKYLINE RANCH OWNERS ASSOCIATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2015 AND 2014

CliftonLarsonAllen

SKYLINE RANCH OWNERS ASSOCIATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Skyline Ranch Owners Association
Warren County, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Skyline Ranch Owners Association (the Association), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of revenues and expenses, changes in members' deficit, and cash flows for the years 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 auditors' 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on 2015 and our unmodified opinion on 2014.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the Company has computed depreciation on several major assets in accordance with the Modified Accelerated Cost Recovery System (MACRS) required for federal income tax purposes, which does not allocate depreciation to expense over the estimated useful lives of the assets. In our opinion, those assets should be depreciated over their estimated useful lives to conform with accounting principles generally accepted in the United States of America. If the financial statements were corrected for that departure from U.S. generally accepted accounting principles, based on a straight-line depreciation method, accumulated depreciation would be decreased by $38,324 as of December 31, 2015, and net income would be increased by $38,324 for the year then ended.

Qualified Opinion on 2015 and Unmodified Opinion on 2014

In our opinion, except for the effects on the 2015 financial statements of computing depreciation as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Skyline Ranch Owners Association as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with 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 the information on future major repairs and replacements on page 13 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. We 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 and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rockford, Illinois
September 28, 2016

SKYLINE RANCH OWNERS ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash - Undesignated	$ 4,816	$ 1,646
Cash - Designated for Future Repairs and Replacements	1,000	8,973
Receivables:		
Trade, Net of Allowance of $875,411 and $661,360 for 2015 and 2014, Respectively	10,982	39,594
Assessment, Net of Allowance of $951,952 and $1,013,850 for 2015 and 2015, Respectively	2,266	8,972
Inventories	3,325	1,569
Prepaid Insurance	1,907	1,827
Property and Equipment, Net	306,978	377,901
Total Assets	$ 331,274	$ 440,482
LIABILITIES AND MEMBERS' DEFICIT		
CURRENT LIABILITIES		
Accounts Payable	$ 9,521	$ 23,186
Accrued Payroll and Taxes	2,837	12,328
Deferred Income from Dues	21,252	64,545
Deferred Income from Assessment	1,000	8,973
Notes Payable, Related Party	2,167,796	2,031,465
Total Liabilities	2,202,406	2,140,497
MEMBERS' DEFICIT	(1,871,132)	(1,700,015)
Total Liabilities and Members' Deficit	$ 331,274	$ 440,482

See accompanying Notes to Financial Statements.

SKYLINE RANCH OWNERS ASSOCIATION
STATEMENTS OF REVENUES AND EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015		2014		
	Amount	Percent of Revenues	Amount	Percent of Revenues	Increase or (Decrease)
REVENUES					
Maintenance Fees	$ 425,174	51.1 %	$ 461,032	33.5 %	$ (35,858)
Special Assessment Income	77,532	9.3	668,002	48.5	(590,470)
Services	46,756	5.6	13,120	1.0	33,636
Rental Income	254,174	30.6	223,382	16.2	30,792
Vending and Food	19,800	2.4	10,137	.7	9,663
Other Income	7,992	1.0	1,027	.1	6,965
Total Revenues	831,428	100.0	1,376,700	100.0	(545,272)
EXPENSES					
Salaries and Wages	282,739	34.0	243,130	17.7	39,609
General and Administrative	108,818	13.1	221,271	16.1	(112,453)
Utilities and Services	111,701	13.4	106,929	7.8	4,772
Maintenance and Housekeeping	33,271	4.0	41,992	3.1	(8,721)
Payroll Taxes	26,798	3.2	22,713	1.6	4,085
Vending and Food Expenses	9,718	1.2	7,452	.5	2,266
Rental Expense	11,286	1.4	11,436	.8	(150)
Insurance	21,684	2.6	20,321	1.5	1,363
Auto and Truck Expense	8,799	1.1	11,236	.8	(2,437)
Bad Debt Expense (Recovery)	214,051	25.7	(156,244)	(11.3)	370,295
Property Taxes	31,038	3.7	28,362	2.1	2,676
Advertising	7,587	.9	6,522	.5	1,065
Professional Fees	8,000	1.0	10,225	.7	(2,225)
Collection Expenses	12,613	1.5	2,153	.2	10,460
Repairs from Assessments	-	-	130,552	9.5	(130,552)
Depreciation and Amortization	102,569	12.3	59,305	4.3	43,264
Loss on Sale of Assets	2,644	.3	-	-	2,644
Income Tax Expense	9,229	1.1	-	-	9,229
Total Expenses	1,002,545	120.5	767,355	55.9	235,190
REVENUES OVER EXPENSES (DEFICIENCY IN REVENUES OVER EXPENSES)	$ (171,117)	(20.5)	$ 609,345	44.1	$ (780,462)

See accompanying Notes to Financial Statements.

SKYLINE RANCH OWNERS ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' DEFICIT
YEARS ENDED DECEMBER 31, 2015 AND 2014

	Total	Undesignated	Designated for Future Repairs and Replacements
BALANCE - DECEMBER 31, 2013	$ (2,309,360)	$ (2,333,750)	$ 24,390
Revenues Over Expenses	609,345	609,345	-
Allocated to Future Repairs and Replacements:			
Assessments	-	(668,002)	668,002
Major Repairs/Replacements:			
Pool	-	154,921	(154,921)
Chalets	-	89,437	(89,437)
Waste Water Treatment	-	10,162	(10,162)
Trail Rides	-	19,874	(19,874)
Dog Park	-	15,553	(15,553)
Pond Improvements	-	6,528	(6,528)
Fencing	-	16,500	(16,500)
Air Conditioners	-	18,000	(18,000)
Vehicles	-	43,918	(43,918)
SRI Debt Repayments	-	101,000	(101,000)
Collection Fees	-	146,455	(146,455)
Miscellaneous	-	70,044	(70,044)
BALANCE - DECEMBER 31, 2014	(1,700,015)	(1,700,015)	-
Deficiency in Revenues Over Expenses	(171,117)	(171,117)	-
Allocated to Future Repairs and Replacements:			
Assessments	-	(77,532)	77,532
Major Repairs/Replacements:			
Sidewalks	-	6,000	(6,000)
SRI Debt Repayments	-	71,532	(71,532)
BALANCE - DECEMBER 31, 2015	$ (1,871,132)	$ (1,871,132)	$ -

See accompanying Notes to Financial Statements.

SKYLINE RANCH OWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues Over Expenses (Deficiency in Revenues Over Expenses)	$ (171,117)	$ 609,345
Adjustments to Reconcile Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	102,569	59,305
Loss on Disposal of Property, Plant and Equipment	2,644	-
Change in Allowance for Doubtful Accounts	(152,153)	(862,424)
(Increase) Decrease in Assets:		
Receivables	187,471	2,080,345
Inventories	(1,756)	1,683
Prepaid Insurance	(80)	(478)
Increase (Decrease) in Liabilities:		
Accounts Payable	(13,665)	(12,807)
Accrued Payroll and Taxes	(9,491)	4,085
Deferred Income	(51,266)	(1,627,344)
Net Cash Provided (Used) by Operating Activities	(106,844)	251,710
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(34,290)	(288,447)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from (Payments to) Notes Payable, Related Parties, Net	136,331	(6,951)
NET DECREASE IN CASH	(4,803)	(43,688)
Cash - Beginning of Year	10,619	54,307
CASH - END OF YEAR	$ 5,816	$ 10,619
SUMMARY OF CASH ACCOUNTS		
Undesignated	$ 4,816	$ 1,646
Designated for Future Repairs and Replacements	1,000	8,973
Total Cash Accounts	$ 5,816	$ 10,619

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Skyline Ranch Owners Association (the Association) was organized on October 26, 1995, as a Virginia nonprofit corporation. The Association is subject to the requirements of the Virginia Real Estate Time-Share Act (TSA), Chapter 21, Title 54.1, of the Code of Virginia 1950, as amended July 1, 1996. The Association is organized to manage, operate, and maintain a time-share resort known as Skyline Ranch Resort (the Resort) located in Warren County, Virginia, and may make improvements if agreed-upon by the board of directors (board). The units in the Resort are being purchased subject to a multisite time-share program (Note 3). Unless sooner terminated by unanimous consent of all owners or court order, the time-share program (and thus the multisite time-share program) automatically renews for an additional 10 years at 4:00 o'clock p.m. on the first day in January 2060. Thereafter, the time-share program will be automatically extended for additional periods of 10 years each, unless terminated sooner by majority vote of the owners or court order. Upon termination, each unit-week owner will become a tenant in common in fee simple with every other owner, including the right to partition.

Currently, there are two classifications of time-share ownership, as follows:

(1) Gold time-share: A gold time-share is an ownership in a specifically designated time-share unit; a treeloft chalet which gives its owner the specific right to use the time-share unit during a designated unit week on a recurring basis subject to a first come, first served, space available basis. A gold time-share includes the rights of the bronze time-share.

(2) Bronze time-share: A bronze time-share is an ownership in an unspecified campsite designated for use by a bronze time-share owner on a recurring basis subject to the occupancy level and the occupancy period. A bronze time-share is subject to a first come, first served, space available basis. A bronze time-share does not include the rights of the gold time-share.

Use of Estimates in Preparing Financial Statements

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are uncollateralized owner obligations which require payment at specified terms. Account balances with invoices past 30 days are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the owner's remittance advice. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific owner accounts and the aging of the accounts receivable. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

Inventories

Inventories are stated at the lower of cost on the first-in, first-out (FIFO) basis, or market.

Property, Equipment, Depreciation, and Amortization

The Association records property and equipment at cost and calculates depreciation using accelerated depreciation methods over the assets' estimated useful lives ranging from three to 39 years. These depreciation methods are also used for income tax purposes. Leasehold improvements are amortized over the life of the lease, which is an annual renewable lease.

Real property owned by individual unit owners in common, and improvements made by the Association to such property, are not capitalized in the financial statements.

Expenditures for repairs and maintenance, which do not materially extend the useful lives of assets, are charged to expense when incurred. Expenditures for betterments to property and equipment are capitalized.

Impairment of Long-Lived Assets

The Association reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Maintenance Fees

Fees are approved by the board of the Association based upon budgeted expenditures of the time-share program. Maintenance fees are used for paying time-share estate occupancy expenses as defined in the public offering statement. The maintenance fee was established at $615 for 2015 and 2014, but may be increased by up to 10% annually.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising costs are charged to expense when incurred.

Income Taxes

The Association was incorporated as a nonprofit corporation under Chapter 10 of Title 13.1 of the Virginia Code Section 13.1-801, as amended. For federal income tax purposes, the Association is treated as a taxable membership organization pursuant to Section 277 of the Internal Revenue Code.

The Association has adopted ASC 740-10, *Income Taxes*, as it relates to uncertain tax positions, and has evaluated its tax position taken for all open tax years. The Association believes that there are no material uncertain tax positions in accordance with applicable standards.

NOTE 2 PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of the following at December 31:

	2015	2014
Land Improvements	$ 188,218	$ 170,218
Building Improvements	171,997	167,930
Furniture and Equipment	278,367	288,196
Shuffleboard and Mini Putt	50,888	50,888
Mobile Home	17,000	15,000
Vehicles	47,034	50,238
Total Property and Equipment	753,504	742,470
Less: Accumulated Depreciation	(446,526)	(364,569)
Property and Equipment, Net	$ 306,978	$ 377,901

NOTE 3 MULTISITE TIME-SHARE PROGRAM

A purchaser of a gold time-share interest in the Resort has the opportunity to become a member of Resort Condominium International, Inc. (RCI), a multisite time-share program. Subject to availability and pursuant to the rules and regulations of RCI, members can exchange a week of usage at the Resort for a similar week at another RCI member resort.

NOTE 4 TIME-SHARE FACILITY

The Resort is a residential time-share development with a maximum of 500 time-share units. At December 31, 2015, there were 137 campsites and 18 treeloft chalets available. The treeloft chalets are subdivided into 52 use periods. The facilities officially opened on October 25, 1995.

NOTE 5 RELATED PARTY TRANSACTIONS

Management Fees

On October 31, 1995, the Association entered into an agreement with Project Management, Inc. (PMI) to provide for the management, operation, and maintenance of the Resort. PMI is owned by certain board members of the Association.

The initial term of the agreement expired on October 31, 1998. This agreement is automatically renewed for successive three-year periods, until terminated. The Association can terminate the agreement by vote of the owners pursuant to the provisions of the TSA. PMI can terminate the agreement if they are at any time hindered in their management performance by owners or guests upon 60-days written notice to the Association.

Fees under the agreement are based on an amount equal to 15% of the operating budget. In addition, PMI is to be reimbursed by the Association for certain costs incurred in connection with their performance, including salaries. PMI will also earn additional compensation equal to the difference between the total amount of maintenance fees, dues, or special assessments collected and the aggregate amount of time-share program expenses incurred during the year, but not to exceed $50,000. For the years ended December 31, 2015 and 2014, PMI waived all management fees.

Developer

The developer of the Association is Skyline Resort, Inc. (the Developer), which is owned by certain board members of the Association. Each owner will be charged a $615 annual maintenance fee for common expenses for the year ended December 31, 2015.

On December 31, 2015 and 2014, the Association signed a note payable to the Developer stipulating that all principal and accrued interest shall be due upon written demand, which may not be made until one year and one day after the date of the note. Interest is to accrue at the Applicable Federal Rates (AFR) published by the IRS, for each month the debt is outstanding. For the years ended December 31, 2015 and 2014, no interest was charged on the note due to the Developer based on a mutual agreement between the Association and the Developer. The balance due on the note was $2,047,313 and $1,895,905 at December 31, 2015 and 2014, respectively.

The Association also pays the Developer $900 a month in rent for use of land for hiking and other activities. $10,800 was paid for the years ended December 31, 2015 and 2014. This is an annual renewable lease.

During the Initial Board Term (IBT) which expires on January 1, 2050, the Developer has the sole voting rights.

NOTE 5 RELATED PARTY TRANSACTIONS (CONTINUED)

Shenandoah Trail Rides, Inc.

On December 31, 2015 and 2014, the Association signed a note payable to Shenandoah Trail Rides, Inc. stipulating that all principal and accrued interest shall be due upon written demand, which may not be made until one year and one day after the date of the note. Interest is to accrue at the AFR published by the IRS for each month the debt is outstanding. For the years ended December 31, 2015 and 2014, no interest was charged on the note due to Shenandoah Trail Rides, Inc. based on a mutual agreement between the Association and Shenandoah Trail Rides, Inc. The balance on this note was $120,483 and $135,560 at December 31, 2015 and 2014, respectively.

Related Party Financing

The Association has received an irrevocable letter of commitment from the owner of the Developer and majority owner of Don Carter Lanes, Inc., to provide cash advances and other financial support needed to meet the Association's cash flow requirements through December 31, 2017.

NOTE 6 SPECIAL ASSESSMENT AND FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents allow, but do not require, the Association to accumulate funds for working capital, operations, contingencies, improvements, and replacements. Accumulated funds, which aggregate $1,000 and $8,973 at December 31, 2015 and 2014, respectively, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy that interest earned on such funds is available for operating purposes.

The Association's board of directors and developer conducted a study during 2012 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

In October, 2013, the Association levied a special assessment equal to $2,750 for each annual owner and $1,375 for each biannual owner to assist with funding for several major repairs and capital improvements. The supplementary schedule on page 13 details the proposed use of funds collected from the special assessment. All amounts collected above the total amount on page 13 will be allocated 35% to the Association and 65% to a related party under common ownership. All expenses related to the special assessment are expected to be incurred by December 31, 2016.

NOTE 6 SPECIAL ASSESSMENT AND FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

During 2013, the Association billed for a special assessment to replace and improve fixed assets on the property. Bills were sent out in October 2013. During 2015 and 2014, only $69,559 and $676,975 was collected for the assessment, respectively, therefore the remaining balance was reserved for at December 31, 2015 and 2014. Because management does not believe the remaining assessment will be collected, several of the repairs will not be completed. Therefore, the deferred revenue related to the assessment was reduced to equal the amount management expects to incur related to the repairs. At December 31, 2015 and 2014, deferred revenue is $1,000 and $8,973, respectively.

NOTE 7 SUPPLEMENTARY CASH FLOWS INFORMATION

Cash paid for interest was $525 and $261 for the years ended December 31, 2015 and 2014, respectively.

NOTE 8 MANAGEMENT’S PLANS

The Association has suffered recurring losses from operations and negative cash flows from operations in prior years. Management continues to monitor expenses, make efforts to increase collection of annual fees, and use volunteers to do jobs around the time-share property instead of hiring employees. The owner of a related party has made a commitment to continue to fund the Association, as necessary. The plan is to continue these efforts until the Association has positive cash flow on its own. It is management’s opinion that the Association has sufficient financial resources to meet its obligations through at least December 31, 2016.

The next board of directors’ meeting will be in November 2016 in Rockford, Illinois.

NOTE 9 SUBSEQUENT EVENTS

Management evaluated subsequent events through September 28, 2016, the date the financial statements were available to be issued.

SKYLINE RANCH OWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2015
(SEE INDEPENDENT AUDITORS REPORT)

The Association's board of directors and developer conducted a study during 2012 to estimate the remaining useful lives and the replacement costs of the common property components. Replacement costs were based on the estimated costs and do not take into account the effects of inflation between 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 the common property. Funding for these repairs and replacements will come from the special assessment levied during 2013 to owners and members.

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Designated for Repairs/ Replacements December 31, 2015
Pool	2 to 3	$ 205,400	$ -
Chalets	3 to 5	200,000	-
Campsites	3 to 5	86,818	-
Sidewalks	3 to 5	37,820	-
Waste Water Treatment	1	31,000	-
Trail Rides	1	25,000	-
Hot Tub	1	20,000	-
Miscellaneous	2 to 4	217,013	-
Debt Repayment	N/A	677,074	-
Totals		$ 1,500,125	$ -