

# Cheatham & Lansford

Certified Public Accountants  
Granbury - Stephenville

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Pecan Plantation Owners Association, Inc.

We have audited the accompanying balance sheet of Pecan Plantation Owners Association, Inc. as of October 31, 2000, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Pecan Plantation Owners Association, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pecan Plantation Owners Association, Inc. as of October 31, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Model Supplementary Information on Future Major Repairs and Replacements (UNAUDITED) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, therefore, we do not express an opinion on the statement.

Granbury, Texas  
December 28, 2000



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**Pecan Plantation Owners' Association, Inc.**  
**Consolidated Balance Sheets**  
**As of October 31, 2000**

	Operating Fund	Replacement Fund	Totals	
			2000	1999
<b>ASSETS</b>				
Cash, including interest-bearing deposits	\$71,827	\$532,329	\$604,155	\$548,540
Temporary investments	46,617	99,222	145,839	353,299
Accounts receivable:				
Members, less allowance for doubtful accounts of \$21,950 in 2000 and \$45,000 in 1999	346,929	49,520	396,449	356,856
Other	26,059		26,059	22,868
Inventories	139,577		139,577	116,389
Prepaid expenses:				
Insurance	33,082		33,082	23,625
Other	20,890		20,890	13,989
Other Assets	84,024		84,024	75,501
Property, Plant and Equipment				
Purchased at cost:				
Land	82,849		82,849	82,849
Buildings and improvements	1,189,456		1,189,456	999,880
Equipment and other	1,646,949	1,734,938	3,381,887	2,605,785
Construction in progress		2,639	2,639	865,240
Contributed, at assigned value (Note 1)	<u>4,497,490</u>		<u>4,497,490</u>	<u>5,048,148</u>
	7,416,744	1,737,577	9,154,321	9,601,902
Less accumulated depreciation	<u>(5,145,512)</u>	<u>(23,508)</u>	<u>(5,169,020)</u>	<u>(6,515,053)</u>
	2,271,232	1,714,069	3,985,301	3,086,849
Real estate held for sale	83,717		83,717	90,338
<b>TOTAL ASSETS</b>	<u><b>\$3,123,954</b></u>	<u><b>\$2,395,140</b></u>	<u><b>\$5,519,094</b></u>	<u><b>\$4,688,254</b></u>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$123,421		\$123,421	\$281,311
Accrued liabilities:				
Payroll	10,523		10,523	44,991
Other	54,614	58,138	112,752	200,787
Deferred revenue-members assessments	287,210	1,189,988	1,477,199	1,222,402
Note payable (Note 4)		640,901	640,901	294,000
Rental deposits	9,000		9,000	10,000
Deferred employee benefits	84,024		84,024	75,501
FUND BALANCES	2,555,161	506,113	3,061,274	2,559,262
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$3,123,954</b></u>	<u><b>\$2,395,140</b></u>	<u><b>\$5,519,094</b></u>	<u><b>\$4,688,254</b></u>

See Accompanying Notes to Consolidated Financial Statements

**Pecan Plantation Owners' Association, Inc.**  
**Consolidated Statements of Revenues, Expenses and Changes in Fund Balances**  
**Year Ended October 31, 2000**

	Operating	Replacement	Totals	
	Fund	Fund	2000	1999
Revenues:				
Members' Assessments	\$2,009,839	\$338,021	\$2,347,860	\$1,853,341
Food and beverage	848,541		848,541	664,183
Inn & reception	149,324		149,324	136,912
Golf & tennis	502,120		502,120	516,404
Marina	548,621	5,944	554,565	462,398
Roads, grounds and recreation	244,687		244,687	233,160
Member Services & administration	346,468	123,798	470,266	292,397
Security	72,335		72,335	71,226
Contributed assets	35,674		35,674	1,750
	<u>4,757,609</u>	<u>467,763</u>	<u>5,225,372</u>	<u>4,231,771</u>
Expenses:				
Food and beverage	887,199		887,199	713,150
Inn & reception	194,253		194,253	178,270
Golf & tennis	711,458		711,458	716,613
Marina	519,448		519,448	437,297
Roads, grounds and recreation	568,834		568,834	327,159
Member Services & administration	1,063,087	46,211	1,109,298	1,166,403
Security	392,288		392,288	404,560
	<u>4,336,567</u>	<u>46,211</u>	<u>4,382,778</u>	<u>3,943,452</u>
Excess revenues over expenses before depreciation	421,042	421,552	842,594	288,319
Less depreciation expense	<u>317,074</u>	<u>23,508</u>	<u>340,582</u>	<u>259,134</u>
Excess of revenues over (expenses)	103,968	398,044	502,012	29,185
Beginning Fund Balances	2,539,291	19,971	2,559,262	2,530,077
Transfer between funds	(88,098)	88,098		
Ending Fund Balances	<u>\$2,555,161</u>	<u>\$506,113</u>	<u>\$3,061,274</u>	<u>\$2,559,262</u>

See Accompanying Notes to Consolidated Financial Statements

**Pecan Plantation Owners' Association, Inc.**  
**Consolidated Statement of Cash Flows**  
**Year Ended October 31, 2000**

	Operating Fund	Replacement Fund	Totals	
			2000	1999
<b>Cash Flows Form Operating Activities</b>				
Excess (deficiency) of revenues over expenses	\$103,968	\$398,044	\$502,012	\$29,185
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Depreciation	317,074	23,508	340,582	259,134
Bad debt expense	2,400		2,400	1,532
Gain on sale of equipment and real estate			0	(11,726)
Decrease (increase) in accounts receivable, before bad debt expense	(4,673)	(11,870)	(16,543)	17,941
Decrease (increase) in inventories	(23,188)		(23,188)	15,701
(Increase) decrease in prepaid expenses	(16,358)		(16,358)	26,966
(Increase) decrease in real estate held for sale	(9,304)		(9,304)	(9,304)
(Decrease) increase in deferred revenues	18,570	236,227	254,797	512,203
Increase (decrease) in accounts payable	(157,890)		(157,890)	98,557
Increase (decrease) in rental deposits	(1,000)		(1,000)	500
(Decrease) increase in accrued liabilities	(88,103)	(34,400)	(122,503)	65,575
Total adjustments	37,528	213,465	250,993	977,079
Net cash provided by (used in) operating activities	141,496	611,509	753,005	1,006,264
<b>Investing Activities</b>				
Capital expenditures	(289,703)	(970,836)	(1,260,539)	(1,158,160)
Proceeds from sale of real estate and other assets	8,788		8,788	13,696
Net cash provided by (used in) investing activities	(280,915)	(970,836)	(1,251,751)	(1,144,464)
<b>Financing activities</b>				
Proceeds from loans		447,686	447,686	294,000
Loan Payments		(100,784)	(100,784)	
Designated capital contributions				(1,750)
Transfer between funds	(88,098)	88,098		
Net cash provided by (used in) financing activities	(88,098)	435,000	346,902	292,250
Net increase (decrease) in cash and cash equivalents	(227,517)	75,673	(151,844)	154,050
Cash and cash equivalents at beginning of year	345,961	555,878	901,839	747,789
Cash and cash equivalents at end of year	\$118,444	\$631,551	\$749,995	\$901,839

See Accompanying Notes to Consolidated Financial Statements

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2000 and 1999**

NOTE 1 – HISTORY OF ASSOCIATION

Pecan Plantation Owners Association, Inc. (the "Association"), a gated community located in southern Hood County, Texas commenced operations in August 1978. The Association is responsible for the operation and maintenance of the common property within the development, which consists of approximately 1,700 residential units located in north central Texas. The Association's charter provides for a membership association without stock or paid-in capital. Each lot owner in the development is a member and pays monthly assessments for the maintenance of the common facilities.

Republic Land Company had subdivided and developed a residential area and common facilities consisting of streets, clubhouse, golf course, tennis courts, recreation parks, airstrip and other improvements. On August 1, 1978, Republic Land Company transferred the common facilities to the Association. An appraisal committee, appointed by the Board of Directors existing at August 1, 1978, valued the acquisition of the property transferred to the Association. The committee determined that the donated assets should be recorded at the original cost to Republic Land Company for improvements and at \$2,500 per acre for land. The assigned values (which have no tax basis) are as follows:

Land	\$ 1,196,000
Golf Course, equipment and sprinkler system	756,472
Roads, bridges and culverts	702,355
Clubhouse, including furnishings	1,842,663
	<u>\$ 4,497,490</u>

Effective March 1, 1979, Pecan Plantation Country Club, Inc. (the "Country Club") was formed to transact the business related to the operations of the Country Club and all recreational facilities. The Country Club is a wholly owned subsidiary of the Association.

During fiscal year 2000, \$550,658 of the fully depreciated assets contributed by Republic Land Company were disposed of and the Association removed them from the books.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2000 and 1999**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements reflect the accounts of the Association and its wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated. Certain amounts previously reported have been reclassified to conform to the current format.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future repairs and replacements.

Member 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 dated include fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2000 and 1999**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Buildings and Equipment

Depreciation is calculated by the straight-line method at rates that approximate the property's estimated useful life. Different depreciation methods are used for tax purposes.

Inventories

Inventories consist of food, beverages, gas, golf accessories and equipment and are stated at the lower of cost (determined by the first-in, first-out method) or market.

Income Taxes

The Association and Country Club file separate federal income tax returns. Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ending October 31, 2000 and 1999, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as income from interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

The Country Club is taxed as a regular corporation. Deferred income taxes are recorded, when applicable, for differences in timing of the recognition of income and expense for financial and tax purposes when appropriate. The Country Club has incurred net operating losses for the years ending October 31, 2000 and 1999.

Statement of Cash Flows

For purposes of the statement of cash flows, the Association considers cash (including interest bearing deposits) and temporary investments to be cash equivalents.

Supplemental Information – No payments were made for income taxes or interest in 2000 and 1999.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2000 and 1999**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporary Investments

The Association considers all highly liquid investments with a maturity of three months or less when purchased, to be temporary investments. In the opinion of management, market value of these temporary investments approximates cost.

Estimates

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

NOTE 3 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Association is considered to have concentrated its credit risk with respect to accounts and notes receivable because substantially all of the balances are receivable from individuals located within the same geographic region.

The Association has interest bearing deposits in various commercial banks. At October 31, 2000, the Association's deposits exceeded federal depository insurance coverage by approximately \$230,000.

NOTE 4 – NOTE PAYABLE

The financial statements include a fixed rate 7.00% note payable of \$640,901 as of October 31, 2000. The proceeds of this note were used for the construction of the bridge located at the front gate of the development. The note is secured by the assignment of a special bridge assessment. The note does not call for the scheduled payments but requires all collected bridge assessments be applied against the note monthly until paid in full. The note has a maturity date of March 3, 2010 at which time any unpaid principal and interest is due and payable.



**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2000 and 1999**

**NOTE 5 – FEDERAL INCOME TAXES**

The Association has recorded no income tax expense for 1999 and 2000, respectively.

The country club has incurred net operating losses since it began filing separate income tax returns in 1994. No tax benefit has been reported in the financial statements regarding net operating losses of the country club.

**NOTE 6 – EMPLOYEE BENEFITS**

The Association provides certain health care and life insurance benefits for all full-time employees (approximately 50). The Association and participants pay monthly costs and expenses to the plan for administration and claims. These costs were approximately \$111,000 and \$111,000 in 2000 and 1999, respectively, and are included in the various departmental expenses.

The Association participates in a non-qualified deferred compensation plan, which provides benefits to certain employees. As of October 31, 2000 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$84,000. The Association also maintains a non-matching 401(k) plan for its employees.

**NOTE 7 – LITIGATION**

At October 31, 2000, there are pending actions incident to normal operations of the Association. In the opinion of Management, the Association's potential liability in these matters will not have a material impact on the financial statements.

**NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$281,000 and \$181,000 at October 31, 2000 and 1999, respectively, are held in separate accounts and are not available for operating purposes. It is the Association's policy that interest earned on such funds is not available for operating purposes.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2000 and 1999**

NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Association's Board of Directors conducted a study in December 1999 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 bases on the study's estimated 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, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Members' equity designated for future major repairs and replacements to the components of common property is as follows (rounded to the nearest thousand dollars):

<u>Balance</u> <u>11/01/1999</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>10/31/2000</u>
<u>\$20,000</u>	<u>\$554,000</u>	<u>\$68,000</u>	<u>\$506,000</u>

The Association's board of directors conducted a study in December 1999 to estimate the remaining useful lives and 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.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2000 and 1999**

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

<u>Components</u>	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	<b>Recommended</b> (Reserve) Fund Balance as of <u>10/31/2000</u>
Roads & Grounds	1 to 30	\$ 3,932,000	\$3,636,000
Security	1 to 3	42,000	12,000
Recreational Facilities	1 to 22	320,000	164,000
Golf Course	1 to 12	773,000	512,000
Clubhouse	1 to 18	551,000	<u>275,000</u>
<b>TOTALS</b>		<u>\$ 5,618,000</u>	<u>\$ 4,599,000</u>
<b>Actual Reserve Fund Balance as of 10/31/2000</b>			<u>\$ 506,000</u>

Recommended Reserve Fund – The ideal amount to be currently in reserve for each item as of the date of the study. This amount is calculated on a straight-line basis for each item included in the analysis. For example, an item with a replacement cost of \$10,000, a normal life of ten years, and a remaining life of five years would require five-tenths or one-half of the replacement cost (\$5,000) in reserve, as of the date of the study.