

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Pecan Plantation Owners Association, Inc. (the Association) as of October 31, 2001 and 2000, and the related consolidated statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of October 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented supplementary information that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

Granbury, Texas  
January 21, 2002



**PECAN PLANTATION OWNERS' ASSOCIATION, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**As of October 31, 2001 and 2000**

	Operating Fund	Replacement Fund	Totals	
			2001	2000
<b>ASSETS</b>				
Cash, including interest-bearing deposits	\$222,124	\$184,824	\$406,948	\$604,155
Temporary investments	48,596	103,435	152,031	145,839
Accounts receivable:				
Members, less allowance for doubtful accounts of \$37,260 in 2001 and \$21,950 in 2000	447,389		447,389	396,449
Other	30,535		30,535	26,059
Inventories	138,459		138,459	139,577
Prepaid expenses:				
Insurance	59,714		59,714	33,082
Other	21,459		21,459	20,890
Other Assets	70,301		70,301	84,024
Property, Plant and Equipment				
Purchased at cost:				
Land	82,849		82,849	82,849
Buildings and improvements	1,275,307	347,461	1,622,768	1,189,456
Equipment and other	1,487,707	2,737,082	4,224,789	3,381,887
Construction in progress		2,639	2,639	2,639
Contributed, at assigned value	1,196,000		1,196,000	4,497,490
	4,041,863	3,087,182	7,129,045	9,154,321
Less accumulated depreciation	(2,125,214)	(84,523)	(2,209,737)	(5,169,020)
	1,916,649	3,002,659	4,919,308	3,985,301
Real estate held for sale	95,988		95,988	83,717
<b>TOTAL ASSETS</b>	<b>\$3,051,214</b>	<b>\$3,290,918</b>	<b>\$6,342,132</b>	<b>\$5,519,094</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$133,118		\$133,118	\$123,421
Accrued liabilities:				
Payroll	19,120		19,120	10,523
Other	65,992	57,046	123,038	112,752
Deferred revenue-members assessments	286,548	1,027,202	1,313,750	1,477,199
Note payable		527,302	527,302	640,901
Rental deposits	11,000		11,000	9,000
Deferred employee benefits	70,301		70,301	84,024
FUND BALANCES	2,465,135	1,679,367	4,144,502	3,061,274
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$3,051,214</b>	<b>\$3,290,918</b>	<b>\$6,342,132</b>	<b>\$5,519,094</b>

See Accompanying Notes to Consolidated Financial Statements

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
Years Ended October 31, 2001 and 2000

	Operating Fund	Replacement Fund	Totals	
			2001	2000
Revenues:				
Members' Assessments	\$2,102,448	\$760,394	\$2,862,842	\$2,347,860
Food and beverage	833,009		833,009	848,541
Inn & reception	122,448		122,448	149,324
Golf & tennis	470,973		470,973	502,120
Marina	517,923	9,597	527,520	554,565
Roads, grounds and recreation	269,326		269,326	274,088
Member Services & administration	275,923	482,736	758,659	470,266
Security	7,865	26,220	34,085	42,934
Contributed assets			0	35,674
	<u>4,599,915</u>	<u>1,278,947</u>	<u>5,878,862</u>	<u>5,225,372</u>
Expenses:				
Food and beverage	916,056		916,056	887,199
Inn & reception	161,029		161,029	194,253
Golf & tennis	706,575		706,575	711,458
Marina	491,930		491,930	519,448
Roads, grounds and recreation	665,074		665,074	568,834
Member Services & administration	988,305	54,678	1,042,983	1,109,298
Security	468,961		468,961	392,288
	<u>4,397,930</u>	<u>54,678</u>	<u>4,452,608</u>	<u>4,382,778</u>
Excess revenues over expenses before depreciation	201,985	1,224,269	1,426,254	842,594
Less depreciation expense	<u>282,011</u>	<u>61,015</u>	<u>343,026</u>	<u>340,582</u>
Excess of revenues over (expenses)	(80,026)	1,163,254	1,083,228	502,012
Beginning Fund Balances	2,555,161	506,113	3,061,274	2,559,262
Transfer between funds	(10,000)	10,000		
Ending Fund Balances	<u>\$2,465,135</u>	<u>\$1,679,367</u>	<u>\$4,144,502</u>	<u>\$3,061,274</u>

See Accompanying Notes to Consolidated Financial Statements

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended October 31, 2001 and 2000

	Operating Fund	Replacement Fund	Totals	
			2001	2000
<b>Cash Flows Form Operating Activities</b>				
Exess (deficiency) of revenues over expenses	(\$80,026)	\$1,163,254	\$1,083,228	\$502,012
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Depreciation	282,011	61,015	343,026	340,582
Bad debt expense	5,463		5,463	2,400
Decrease (increase) in accounts receivable, before bad debt expense	(120,246)	49,520	(70,726)	(16,543)
Decrease (increase) in inventories	1,118		1,118	(23,188)
(Increase) decrease in prepaid expenses	(27,202)		(27,202)	(16,358)
(Increase) decrease in real estate held for sale	(12,271)		(12,271)	(9,304)
(Decrease) increase in deferred revenues	(662)	(162,786)	(163,448)	254,797
Increase (decrease) in accounts payable	9,697		9,697	(157,890)
Increase in rental deposits	2,000		2,000	(1,000)
(Decrease) increase in accrued liabilities	(19,975)	(1,092)	(21,067)	(122,503)
Total adjustments	<u>119,934</u>	<u>(53,343)</u>	<u>66,591</u>	<u>250,993</u>
Net cash provided by (used in) operating activites	<u>39,908</u>	<u>1,109,911</u>	<u>1,149,819</u>	<u>753,005</u>
<b>Investing Activities</b>				
Capital expenditures		(1,349,604)	(1,349,604)	(1,260,539)
Developer contribution	40,000		40,000	
Proceeds from sale of real estate and other assets	82,368		82,368	8,788
Net cash provided by (used in) investing activities	<u>122,368</u>	<u>(1,349,604)</u>	<u>(1,227,236)</u>	<u>(1,251,751)</u>
<b>Financing activities</b>				
Proceeds from loans				447,686
Loan Payments		(113,599)	(113,599)	(100,784)
Transfer between funds	(10,000)	10,000		
Net cash provided by (used in) financing activities	<u>(10,000)</u>	<u>(103,599)</u>	<u>(113,599)</u>	<u>346,902</u>
Net increase (decrease) in cash and cash equivalents	152,276	(343,292)	(191,016)	(151,844)
Cash and cash equivalents at beginning of year	<u>118,444</u>	<u>631,551</u>	<u>749,995</u>	<u>901,839</u>
Cash and cash equivalents at end of year	<u>\$270,720</u>	<u>\$288,259</u>	<u>\$558,979</u>	<u>\$749,995</u>

See Accompanying Notes to Consolidated Financial Statements

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2001 and 2000**

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 1,900 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
	<hr/> <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 years 2001 and 2000, \$3,301,490 and \$550,658 of the fully depreciated assets contributed by Republic Land Company were disposed of and the Association removed them from the books.

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.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2001 and 2000**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2001 and 2000**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2001 and 2000, 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, 2001 and 2000.

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 in 2001 and 2000. Interest paid on loans was \$38,498 and \$39,199 for 2001 and 2000, respectively.

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.

**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2001 and 2000**

**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, 2001, the Association's deposits exceeded federal depository insurance coverage by approximately \$51,000.

**NOTE 4 - NOTE PAYABLE**

The financial statements include a fixed rate 7.00% note payable of \$527,302 & \$640,901 as of October 31, 2001 & 2000 respectively. 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.

**NOTE 5 - FEDERAL INCOME TAXES**

The Association has recorded no income tax expense for 2000 and 2001, 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 2001 and 2000, 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, 2001 (most recent measurement date), the value of the plan's assets, which are subject to the general



**Pecan Plantation Owners' Association, Inc.**  
**Notes To Consolidated Financial Statements**  
**October 31, 2001 and 2000**

creditors of the Association, was approximately \$70,000. The Association also maintains a non-matching 401(k) plan for its employees.

**NOTE 7 – LITIGATION**

At October 31, 2001, 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 \$161,000 and \$281,000 at October 31, 2001 and 2000, 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.

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's governing documents do not specifically provide for the accumulation of funds to finance estimated future major repairs and replacements. When funds are required for major repairs and replacements, the Association plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.