

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.**

FINANCIAL REPORT

OCTOBER 31, 2003

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WEAVER
AND
TIDWELL

L.L.P.

CERTIFIED PUBLIC
ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated balance sheet of Pecan Plantation Owners' Association, Inc. (the Association) as of October 31, 2003, and the related consolidated statements of revenues, expenses and changes in fund balances, and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the supplementary information about future major repairs and replacements 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
December 22, 2003

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
CONSOLIDATED BALANCE SHEET
OCTOBER 31, 2003**

	<u>Operating Fund</u>	<u>Reserves and Replacement Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash, including interest bearing deposits	\$ 110,479	\$ 651,367	\$ 761,846
Accounts receivable			
Members, less allowance for doubtful accounts of \$36,650	418,442	-	418,442
Inventories	128,297	-	128,297
Prepaid expenses	73,577	-	73,577
Other assets	57,640	-	57,640
	<u>788,435</u>	<u>651,367</u>	<u>1,439,802</u>
PROPERTY AND EQUIPMENT			
Land	131,841	-	131,841
Buildings and improvements	1,555,435	-	1,555,435
Equipment and other	4,737,196	-	4,737,196
Construction in progress	1,558,708	-	1,558,708
Contributed property, at assigned value, net	1,196,000	-	1,196,000
	<u>11,189,180</u>	<u>-</u>	<u>11,189,180</u>
Less accumulated depreciation	(2,714,925)	-	(2,714,925)
	<u>6,464,255</u>	<u>-</u>	<u>6,464,255</u>
Property and equipment, net			
Real estate lots	29,325	-	29,325
	<u>29,325</u>	<u>-</u>	<u>29,325</u>
TOTAL ASSETS	<u><u>\$ 7,282,015</u></u>	<u><u>\$ 651,367</u></u>	<u><u>\$ 7,933,382</u></u>
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES			
Accounts payable	\$ 150,457	\$ -	\$ 150,457
Accrued expenses	205,590	-	205,590
Deferred revenues, member assessments	209,251	-	209,251
Current portion of long-term debt	391,189	-	391,189
Rental deposits	13,000	-	13,000
	<u>969,487</u>	<u>-</u>	<u>969,487</u>
Total current liabilities			
LONG-TERM DEBT	689,452	-	689,452
FUND BALANCES	<u>5,623,076</u>	<u>651,367</u>	<u>6,274,443</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 7,282,015</u></u>	<u><u>\$ 651,367</u></u>	<u><u>\$ 7,933,382</u></u>

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
CONSOLIDATED STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND BALANCES
YEAR ENDED OCTOBER 31, 2003**

	Operating Fund	Reserves and Replacement Fund	Total
REVENUES			
Members' assessments	\$ 2,115,939	\$ 994,037	\$ 3,109,976
Food and beverage	737,860	-	737,860
Inn & reception	107,583	-	107,583
Golf & tennis	489,738	-	489,738
Marina	526,078	-	526,078
Roads, grounds and recreational facilities	292,627	-	292,627
Member services and administration	374,602	489,982	864,584
Security	1,397	-	1,397
	<u>4,645,824</u>	<u>1,484,019</u>	<u>6,129,843</u>
EXPENSES			
Food and beverage	929,272	-	929,272
Inn & reception	174,434	-	174,434
Golf & Tennis	840,353	-	840,353
Marina	476,232	-	476,232
Roads, grounds and recreational facilities	490,894	-	490,894
Member services and administration	1,318,219	57,644	1,375,863
Security	505,338	-	505,338
	<u>4,734,742</u>	<u>57,644</u>	<u>4,792,386</u>
Excess revenues over expenses before depreciation and income taxes	(88,918)	1,426,375	1,337,457
Depreciation expense	406,859	-	406,859
	<u>406,859</u>	<u>-</u>	<u>406,859</u>
Excess (deficiency) of revenues over expenses	(495,777)	1,426,375	930,598
FUND BALANCES, as previously reported	2,181,216	2,808,301	4,989,517
Prior period adjustment	2,613,261	(2,258,933)	354,328
FUND BALANCES, as restated	4,794,477	549,368	5,343,845
Transfer between funds	1,324,376	(1,324,376)	-
	<u>1,324,376</u>	<u>(1,324,376)</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 5,623,076</u>	<u>\$ 651,367</u>	<u>\$ 6,274,443</u>

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2003**

	Operating Fund	Reserves and Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	(\$ 495,777)	\$ 1,426,375	\$ 930,598
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities			
Depreciation	406,859	-	406,859
Loss (gain) on sale of equipment and real estate	(7,168)	-	(7,168)
Changes in assets and liabilities			
Accounts receivable	(26,880)	-	(26,880)
Inventories	13,649	-	13,649
Prepaid expenses	(7,887)	-	(7,887)
Other assets	(4,193)	-	(4,193)
Deferred revenues	(489,638)	-	(489,638)
Accounts payable	20,852	-	20,852
Rental deposits	(2,164)	-	(2,164)
Accrued liabilities	3,223	-	3,223
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	(589,124)	1,426,375	837,251
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(295,429)	-	(295,429)
Proceeds from sale of real estate lots	29,927	-	29,927
	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	(265,502)	-	(265,502)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan payments	(534,515)	-	(534,515)
Transfer from reserves and replacement fund	1,324,376	(1,324,376)	-
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	789,861	(1,324,376)	(534,515)
Change in cash and cash equivalents	(64,765)	101,999	37,234
CASH AND CASH EQUIVALENTS, beginning of year	175,244	549,368	724,612
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 110,479</u>	<u>\$ 651,367</u>	<u>\$ 761,846</u>
NON-CASH INVESTING AND FINANCING ACTIVITY			
Property and equipment financed through long-term debt	<u>\$ 1,147,458</u>	<u>\$ -</u>	<u>\$ 1,147,458</u>
Lots acquired as payment on trade receivables	<u>\$ 21,650</u>	<u>\$ -</u>	<u>\$ 21,650</u>

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. NATURE OF OPERATIONS

Pecan Plantation Owners' Association, Inc. (the Association) 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 2,000 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.

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

Republic Land Company subdivided, developed, maintained and operated the common property, consisting of streets, clubhouse, golf course, tennis courts, recreation parks, airstrip and other improvements until June 1, 1972, when such land, improvements, buildings and equipment were conveyed to the Association at no cost. 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	<u>1,842,663</u>
Accumulated depreciation	(<u>3,301,490</u>)
Total contributed assets	<u>\$1,196,000</u>

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements reflect the accounts of the Association and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. 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 the fund accounting method. Financial resources are classified for accounting and reporting purposes into 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.

Reserve and 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 date 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. The allowance for doubtful accounts is based on past experience, management's review of individual accounts, current economic conditions and other pertinent factors.

Interest Income

Interest income is fully allocated to the operating fund.

Land, Buildings and Equipment

Except as explained in Note 1 regarding the contribution of assets upon formation of the Association, property and equipment is recorded at cost. Depreciation is calculated principally by the straight-line method using the following estimated useful lives of the assets:

Buildings and improvements	15 years
Equipment and other	1 - 50 years

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

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

Income Taxes

The Association and the Country Club file separate federal income tax returns. Homeowners' associations may be taxed either as homeowners' associations or as regular corporations.

For the year ended October 31, 2002, the Association filed as a homeowners' association and anticipates filing as a homeowners' association for the year ended October 31, 2003. 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 year ending October 31, 2003.

Statement of Cash Flows

For purposes of the statements of cash flows, the Association considers cash (including interest bearing deposits) and temporary investments with maturities of three months or less when purchased to be cash equivalents. The breakout of cash and cash equivalents at October 31, 2003 is as follows:

Cash, including interest bearing deposits	\$ 606,860
Temporary investments	<u>154,986</u>
Total cash and cash equivalents	<u>\$ 761,846</u>

Cash paid for interest and interest expense was \$41,960 and \$56,497 for the year ended October 31, 2003.

Franchise Fee Income

The Association has contracts with two utility companies which allow the Association to retain a percentage of billings. Included in member services and administration revenue is franchise fee income of \$77,614 for the year ended October 31, 2003.

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – continued

Concentration of Credit Risk

Financial instruments that potentially subject the Association to significant concentrations of credit risk consist principally of cash and accounts receivable.

The Association maintains cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Substantially all of the Association's accounts receivable are due from individuals located within the same geographic region.

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 expense during the reporting period. Actual results could differ from those estimates.

NOTE 3. COMMITMENTS AND CONTINGENT LIABILITY

The Association maintains non-cancelable lease agreements for certain office and maintenance equipment under which the Association incurred approximately \$45,150 in expenses during the year ended October 31, 2003.

Future minimum payments required under the agreement are as follows for the respective years ending October 31:

2004	\$ 59,784
2005	40,697
2006	40,244
2007	<u>19,465</u>
	<u>\$160,190</u>

The Association maintains non-cancelable purchase agreements with original terms ranging from five to twenty years whereby they have agreed to purchase utilities and services at a set minimum price. The Association incurred costs under these agreements totaling approximately \$196,000 for the year ended October 31, 2003.

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3. COMMITMENTS AND CONTINGENT LIABILITY – continued

Future minimum payments required under the agreements are as follows for the respective years ending October 31:

2004	\$ 196,425
2005	51,425
2006	22,425
2007	22,425
2008	22,425
Thereafter	<u>194,350</u>
	<u>\$ 509,475</u>

NOTE 4. LONG-TERM DEBT

Long-term debt at October 31, 2003 consists of the following:

Note payable to a bank, due monthly in amount equivalent to special bridge assessment collections (approximately \$12,000 per month at October 31, 2003), including interest at 7%, maturing in March 2010; secured by special bridge assessment.	\$ 328,537
Note payable to a bank, due monthly installments of \$25,000, including interest at 5.35%, maturing in July 2006; secured by special road assessment.	<u>752,104</u>
	1,080,641
Less current portion of long-term debt	<u>(391,189)</u>
	<u>\$ 689,452</u>

Long-term debt maturities subsequent to October 31, 2003 are as follows:

2004	\$ 391,189
2005	414,820
2006	<u>274,632</u>
Total	<u>\$1,080,641</u>

The current portion of the note payable for the bridge construction was estimated based upon expected collections on the special bridge assessment and may change based upon actual collections.

**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 5. EMPLOYEE BENEFITS

The Association provides certain health care benefits for all full-time employees (approximately 50). The Association and participants pay monthly costs and expenses to the plan for administration and premiums. These costs were approximately \$165,000 during the year ended October 31, 2003 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, 2003 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$57,000. The Association also maintains a non-matching 401(k) plan for its employees. The Association did not make contributions to either plan in 2003.

NOTE 6. FEDERAL INCOME TAXES

The Association has recorded no income tax expense for the year ended October 31, 2003. 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 since management does not believe that the net operating losses will be used before they expire.

NOTE 7. FUTURE MAJOR REPAIRS AND REPLACEMENTS

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 to finance estimated future major repairs and replacements, the Association plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. Accumulated funds, which aggregate \$651,367 at October 31, 2003, are held in separate accounts and are not available for operating purposes unless approved by the board of directors.

NOTE 8. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment has been made as a net increase to the beginning fund balance as of November 1, 2002 in the amount of \$354,328 to adjust the financial statements for correction of errors in the October 31, 2002 financial statements as follows:

Adjustment for under recognition of revenue and over statement of deferred revenue pertaining to special assessments.	\$ 462,958
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Adjustment of real estate lots of the association after a physical inventory.	(75,829)
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**PECAN PLANTATION
OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 8. PRIOR PERIOD ADJUSTMENTS – continued

Adjustment for under accrual of expenses.	(<u>32,801</u>)
Total prior period adjustment	<u>\$ 354,328</u>

In addition, net assets of \$2,258,933 that were previously reported in the reserve and replacement fund were reported in the operating fund for 2003.

NOTE 9. LITIGATION

At October 31, 2003, 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.