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CERTIFIED PUBLIC ACCOUNTANTS  
REPORT OF INDEPENDENT AUDITORS

MEMBERS  
AMERICAN INSTITUTE  
OF CERTIFIED  
PUBLIC ACCOUNTANTS  
AND  
TEXAS SOCIETY  
OF CERTIFIED  
PUBLIC ACCOUNTANTS

Board of Directors  
Pecan Plantation Owners' Association, Inc.

We have audited the consolidated balance sheets of Pecan Plantation Owners' Association, Inc. (the "Association") as of October 31, 1993 and 1992, and the related consolidated statement of operations, changes in members' equity, 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.

Except as discussed in the following paragraph, we conducted our audits 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 audits provide a reasonable basis for our opinion.

As indicated in Note 1 to the consolidated financial statements, several years ago certain land and improvements were transferred to the Association by the developer. In order to provide a basis for accountability, the Association's Board of Directors existing at that time appointed an appraisal committee to review and value the acquired assets. The valuation process resulted in an assigned value of approximately \$5,048,000. Due to the nature of this valuation determination, we were unable to satisfy ourselves by application of other auditing procedures as to the assigned value referred to above.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary to record independently determined fair values of contributed property and any related changes in depreciation expense and accumulated depreciation of the assets described in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pecan Plantation Owners' Association at October 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audit has been made primarily for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying other financial information as listed in the table of contents is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, except as stated in the second preceding paragraph, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

The Association has not presented the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*George Morgan & Sneed, P.C.*  
December 15, 1993

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
CONSOLIDATED BALANCE SHEETS  
October 31,

	1993	1992
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 150,063	\$ 60,693
Accounts receivable:		
Members, less allowance for doubtful accounts of \$37,000 in 1992 and 1993	266,564	257,120
Other	26,971	35,062
Inventories	132,860	136,457
Prepaid expenses:		
Insurance	43,971	57,200
Other	18,309	15,878
<b>Total Current Assets</b>	<b>638,738</b>	<b>562,410</b>
 Other Assets	 42,000	 30,800
 Long-Term Receivables From Members		 839
 Property, Plant and Equipment (Notes 1 & 2)		
Purchased, at cost:		
Land	72,669	72,669
Buildings and Improvements	641,488	638,206
Equipment and other	1,413,793	1,311,443
Contributed, at assigned value	5,048,148	5,048,148
	7,176,098	7,070,466
Less accumulated depreciation	(4,509,192)	(4,176,235)
	2,666,906	2,894,231
Real estate held for sale	95,504	84,832
	3,443,148	3,573,112
<b>TOTAL ASSETS</b>	<b>\$ 3,443,148</b>	<b>\$ 3,573,112</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current Liabilities</b>		
Note payable to bank	\$	\$ 55,000
Accounts payable	173,748	186,186
Accrued liabilities:		
Payroll	42,414	25,075
Property taxes	24,044	23,256
Other	30,590	56,462
Deferred revenues, members' assessments (Note 5)	275,087	267,242
Rental deposits	4,000	4,000
<b>Total Current Liabilities</b>	<b>549,883</b>	<b>617,221</b>
 Deferred employee benefits (Note 8)	 42,000	 30,800
 Members' Equity (Note 1)	 2,851,265	 2,925,091
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 3,443,148</b>	<b>\$ 3,573,112</b>

See Accompanying Notes to Consolidated Financial Statements.

**PECAN PLANTATION OWNERS' ASSOCIATION, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
Year Ended October 31,

	<u>1993</u>	<u>1992</u>
<b>Revenues:</b>		
Members' assessments	\$ 1,394,548	\$ 1,375,667
Food and beverage	615,801	629,864
Inn	184,527	189,426
Club	95,940	98,734
Golf	453,779	458,679
Marina	205,527	166,614
Roads and grounds/recreation	165,419	174,096
Other	104,341	107,458
	<u>3,219,882</u>	<u>3,200,538</u>
<b>Expenses:</b>		
Food and beverage	628,706	676,635
Inn	207,861	194,835
Club and administration	925,284	908,574
Golf	508,284	525,715
Marina	180,565	145,405
Roads and grounds/recreation	285,566	313,242
Security	223,065	214,890
	<u>2,959,331</u>	<u>2,979,296</u>
<b>Revenues over (under) expenses before depreciation and federal income tax</b>	<u>260,551</u>	<u>221,242</u>
<b>Less depreciation expense (Note 1):</b>		
Purchased assets	140,396	121,165
Contributed assets	192,600	192,607
	<u>332,996</u>	<u>313,772</u>
<b>Income (loss) before federal income tax</b>	(72,445)	(92,530)
<b>Federal income tax (Note 7)</b>	<u>1,381</u>	<u>18,000</u>
<b>Net income (loss)</b>	<u>\$ (73,826)</u>	<u>\$ (110,530)</u>

See Accompanying Notes to Consolidated Financial Statements.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
For Years Ended October 31, 1993 and 1992

	<u>Capital Contributions</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at October 31, 1991	\$ 5,423,984	\$ (2,388,363)	\$ 3,035,621
Net loss	<u>                    </u>	<u>(110,530)</u>	<u>(110,530)</u>
Balance at October 31, 1992	<u>5,423,984</u>	<u>(2,498,893)</u>	<u>2,925,091</u>
Net loss	<u>                    </u>	<u>(73,826)</u>	<u>(73,826)</u>
Balance at October 31, 1993	<u>\$ 5,423,984</u>	<u>\$ (2,572,719)</u>	<u>\$ 2,851,265</u>

See Accompanying Notes to Consolidated Financial Statements.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended October 31,

	<u>1993</u>	<u>1992</u>
<b>Operating Activities</b>		
Net loss	\$ <u>(73,826)</u>	\$ <u>(110,530)</u>
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	332,996	313,772
Bad debt expense	4,323	13,093
Gain on sale of equipment and real estate	(1,283)	(18,074)
(Increase) decrease in accounts receivable, before bad debt expense	(1,353)	3,789
Decrease in long-term receivable from members	839	
(Increase) decrease in inventories	3,597	(23,677)
(Increase) decrease in prepaid expenses	10,798	(727)
Increase (decrease) in deferred revenues	7,845	20,396
Decrease in rental deposits		(4,500)
Increase (decrease) in accounts payable	(12,438)	(70,194)
Increase (decrease) in federal income taxes payable		(30,400)
Increase (decrease) in accrued liabilities	(7,745)	32,776
Increase in real estate held for sale	(10,672)	
Total adjustments	<u>326,907</u>	<u>236,254</u>
Net cash provided by (used in) operating activities	<u>253,081</u>	<u>125,724</u>
<b>Investing Activities</b>		
Capital expenditures	(105,633)	(170,596)
Proceeds from sale of real estate	9,571	15,048
Proceeds from sale of assets	200	18,802
Other	<u>(12,849)</u>	<u>(7,638)</u>
Net cash provided by (used in) investing activities	<u>(108,711)</u>	<u>(144,384)</u>
<b>Financing Activities</b>		
Payments of long-term debt		(62,262)
Proceeds from issuance of short-term borrowings		110,471
Payments of short-term borrowings	<u>(55,000)</u>	<u>(55,471)</u>
Net cash provided by (used in) financing activities	<u>(55,000)</u>	<u>(7,262)</u>
Net increase (decrease) in cash	89,370	(25,922)
Cash at beginning of year	<u>60,693</u>	<u>86,615</u>
Cash at end of year	<u>\$ 150,063</u>	<u>\$ 60,693</u>

See Accompanying Notes to Consolidated Financial Statements.

**PECAN PLANTATION OWNERS' ASSOCIATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1993 and 1992**

**NOTE 1 -- HISTORY OF ASSOCIATION**

Pecan Plantations Owners' Association, Inc. (the "Association") commenced operations in August 1978. 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, club house, golf course, tennis courts, recreation parks, airstrip and other improvements. On August 1, 1978, Republic Land Company transferred the common facilities to the Association. The acquisition of the property transferred to the Association was valued by an appraisal committee appointed by the Board of Directors existing at August 1, 1978. 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
Club house, including furnishings		1,842,663
Other recreational facilities		370,333
Other improvements		180,325
	<u>\$</u>	<u>5,048,148</u>

The Association recorded depreciation expense of \$192,600 and \$192,607 with respect to these assets for each of the years ended October 31, 1993 and 1992 respectively. Accumulated depreciation at October 31, 1993 amounted to \$2,911,671 for the assets.

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.

**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 intercompany accounts and transactions have been eliminated.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
October 31, 1993 and 1992

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Unpaid members' assessments attach to the assessed property in the form of liens. The Association's lien right is subordinated to the lien right of the first lien holder. At October 31, 1993, approximately \$74,000 of members' assessments were past due (\$73,500 in 1992). The Association has the right and does initiate legal action in an attempt to recover delinquent assessments on properties that have been deeded.

Land, Buildings and Equipment

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

Inventories

Inventories consist of food, beverages, gas, golf and tennis 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, 1993 and 1992, 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 lot mowing and 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, 1993 and 1992.

The Association has not completed an analysis of the effects of changes made by the Financial Accounting Standards Board in accounting for income taxes on its financial statements. The Association is not required to adopt the new accounting standard until fiscal 1994.

**PECAN PLANTATION OWNERS' ASSOCIATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
October 31, 1993 and 1992

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Statement of Cash Flows Supplemental Information

Cash paid during the year ended October 31, 1993 for interest was approximately \$7,103 (\$16,163 in 1992). Payments made for income taxes were \$0 in 1993 (\$48,000 in 1992). The \$48,000 of income taxes paid in 1992 is comprised of \$30,000 paid in 1992 for fiscal year 1991 income taxes and \$18,000 paid in 1992 for fiscal year 1992 income taxes.

**NOTE 3 -- LINE-OF CREDIT**

The Association has a line-of-credit in the amount of \$100,000 with a local bank. Resulting loans are secured by the Association's accounts receivable and membership assessments. Interest is at the bank's prime rate plus one percent. There were no outstanding borrowings at October 31, 1993.

**NOTE 4 -- LONG-TERM DEBT**

At October 31, 1993 and 1992, long-term debt consisted of:

	1993	1992
Note payable to bank, in monthly installments of \$9,654 including interest at 9%, due July 1993, secured by golf carts	\$	\$ 55,000
Less amount due within one year		55,000
Long-term debt due after one year	\$ 0	\$ 0

**NOTE 5 -- MEMBERS' ASSESSMENTS**

In order to take advantage of a prepayment discount, certain members may elect to make an annual prepayment of their monthly membership assessments. Assessments prepaid in this manner are credited to income on a monthly, pro rata basis. In addition, members' assessments are billed one month in advance. Such advance billings are recorded as income in the month following the billing. At October 31, deferred revenues resulting from the above policy consisted of:

	1993	1992
Unamortized prepayments:		
Annual Prepayments	\$ 172,883	\$ 165,731
November advance billings	102,204	101,511
	\$ 275,087	\$ 267,242

**NOTE 6 -- RECLASSIFICATION**

Certain amounts for 1992 in the accompanying financial statements have been reclassified to conform to 1993 report classifications.



**PECAN PLANTATION OWNERS' ASSOCIATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 1993 and 1992**

**NOTE 7 -- FEDERAL INCOME TAXES**

The Association has recorded income tax expense of \$1,381 for 1993 (\$18,000 for 1992).

A reconciliation of the expected federal income tax expense is as follows:

	1993	1992
Federal Income Tax on non exempt income of the association	\$ 7,169	\$ 18,000
Effect of refund from prior years overpayments	(5,788)	
Federal income tax expense	\$ 1,381	\$ 18,000

Net operating losses of the country club for fiscal years ended October 31, 1993 and 1992 were approximately \$170,624 and \$169,324, respectively.

**NOTE 8 -- EMPLOYEE BENEFITS**

The Association provides certain health care and life insurance benefits for all full-time employees (approximately 59). The Association and participants pay monthly costs and expenses to the plan for administration and claims. These costs were approximately \$135,000 and \$109,000 in 1993 and 1992, respectively, and are included in the various departmental expenses.

The Association participates in a multi-employer deferred compensation plan which provides benefits to certain employees. Employees can elect to contribute up to \$1,200 per year to the plan which is matched 100% by the Association. The Association contributed approximately \$4,500 to the plan in 1993 (\$3,900 in 1992). As of September 30, 1993 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$42,000.

**NOTE 9 -- LITIGATION**

At October 31, 1993, 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 10 -- FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future, nor has the board of directors developed a plan to fund those needs. 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.