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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Pecan Plantation Owners' Association, Inc.

We have audited the consolidated balance sheet of Pecan Plantation Owners' Association, Inc. (the "Association") as of October 31, 1992, and the related consolidated statement of operations, changes in members' equity, 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. The financial statements of Pecan Plantation Owners' Association, Inc. as of and for the year ended October 31, 1991, were audited by other auditors whose report dated December 18, 1991, on those statements included an explanatory paragraph that described the valuation of certain contributed land and improvements discussed in Note 1 to the financial statements.

Except as discussed in the following paragraph, 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.

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, 1992, and the consolidated results of its operations and its cash flows for the year 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.

George, Morgan & Sneed, P.C.

December 15, 1992

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

	1992	1991
ASSETS		
Current Assets		
<i>Cash</i>	\$ 60,693	\$ 86,615
<i>Accounts receivable:</i>		
<i>Members, less allowance for doubtful accounts</i> <i>of \$37,000 in 1992 and \$30,000 in 1991</i>	257,120	267,909
<i>Other</i>	35,062	42,269
<i>Inventories</i>	136,457	112,780
<i>Prepaid expenses:</i>		
<i>Insurance</i>	57,200	56,322
<i>Other</i>	15,878	16,029
Total Current Assets	562,410	581,924
 Long-Term Receivables From Members	 839	 5,048
 Property, Plant and Equipment (Notes 1 & 4)		
<i>Purchased, at cost:</i>		
<i>Land</i>	72,669	72,669
<i>Buildings and improvements</i>	638,206	635,921
<i>Equipment and other</i>	1,311,443	1,213,508
<i>Contributed, at assigned value</i>	5,048,148	5,048,148
	7,070,466	6,970,246
<i>Less accumulated depreciation</i>	(4,176,235)	(3,932,852)
	2,894,231	3,037,394
<i>Real estate held for sale</i>	84,832	87,660
	2,979,063	3,125,054
 TOTAL ASSETS	 \$ 3,542,312	 \$ 3,712,026
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
<i>Note payable to bank</i>	\$ 55,000	\$
<i>Accounts payable</i>	186,186	260,380
<i>Federal income taxes payable (Note 6)</i>		30,400
<i>Accrued liabilities:</i>		
<i>Payroll</i>	25,075	15,420
<i>Property taxes</i>	23,256	23,635
<i>Other</i>	56,462	32,962
<i>Deferred revenues, members' assessments (Note 5)</i>	267,242	246,846
<i>Long-term debt due within one year (Note 4)</i>		37,262
<i>Rental deposits</i>	4,000	4,500
Total Current Liabilities	617,221	651,405
 Long-Term Debt Due After One Year (Note 4)	 	 25,000
 Members' Equity (Note 1)	 2,925,091	 3,035,621
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ 3,542,312	 \$ 3,712,026

See accompanying notes to consolidated financial statements.

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

	<u>1992</u>	<u>1991</u>
Revenues:		
<i>Members' assessments</i>	\$ 1,375,667	\$ 1,370,827
<i>Food and beverage</i>	629,864	598,526
<i>Inn</i>	189,426	176,574
<i>Club</i>	265,348	74,287
<i>Golf</i>	458,679	430,959
<i>Roads and grounds/recreation</i>	174,096	218,237
<i>Other</i>	107,458	114,581
	<u>3,200,538</u>	<u>2,983,991</u>
Expenses:		
<i>Food and beverage</i>	676,635	645,389
<i>Inn</i>	194,835	189,985
<i>Club and administration</i>	1,053,979	796,249
<i>Golf</i>	525,715	506,040
<i>Roads and grounds/recreation</i>	313,242	344,148
<i>Security</i>	214,890	218,611
	<u>2,979,296</u>	<u>2,700,422</u>
Revenues over (under) expenses before depreciation and federal income tax	<u>221,242</u>	<u>283,569</u>
Less depreciation expense (Note 1):		
<i>Purchased assets</i>	121,165	132,646
<i>Contributed assets</i>	192,607	192,607
	<u>313,772</u>	<u>325,253</u>
Income (loss) before federal income tax	(92,530)	(41,684)
Federal income tax (Note 6)	<u>18,000</u>	<u>30,400</u>
Net income (loss)	<u>\$ (110,530)</u>	<u>\$ (72,084)</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, 1992 and 1991

	<u>Capital Contributions</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at October 31, 1990	\$ 5,423,984	\$ (2,316,279)	\$ 3,107,705
Net loss	_____	(72,084)	(72,084)
Balance at October 31, 1991	5,423,984	(2,388,363)	3,035,621
Net loss	_____	(110,530)	(110,530)
Balance at October 31, 1992	<u>\$ 5,423,984</u>	<u>\$ (2,498,893)</u>	<u>\$ 2,925,091</u>

See accompanying notes to consolidated financial statements.

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

	1992	1991
Operating Activities		
<i>Net loss</i>	\$ (110,530)	\$ (72,084)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
<i>Depreciation</i>	313,772	325,253
<i>Bad debt expense</i>	13,093	9,089
<i>Gain on sale of equipment and real estate</i>	(18,074)	(17,685)
<i>(Increase) decrease in accounts receivable, before bad debt expense</i>	3,789	(77,877)
<i>Increase in inventories</i>	(23,677)	(13,126)
<i>(Increase) decrease in prepaid expenses</i>	(727)	8,470
<i>Increase (decrease) in deferred revenues</i>	20,396	(2,469)
<i>Decrease in rental deposits</i>	(4,500)	(750)
<i>Increase (decrease) in accounts payable</i>	(70,194)	141,342
<i>Increase (decrease) in federal income taxes payable</i>	(30,400)	30,400
<i>Increase in accrued liabilities</i>	32,776	3,258
Total adjustments	236,254	405,905
Net cash provided by (used in) operating activities	125,724	333,821
Investing Activities		
<i>Cash restricted for emergency purposes</i>		20,000
<i>Capital expenditures</i>	(170,596)	(139,424)
<i>Proceeds from sale of real estate</i>	15,048	45,328
<i>Proceeds from sale of assets</i>	18,802	
<i>Other</i>	(7,638)	6,038
Net cash provided by (used in) investing activities	(144,384)	(68,058)
Financing Activities		
<i>Payments of long-term debt</i>	(62,262)	(71,311)
<i>Proceeds from issuance of short-term borrowings</i>	110,471	
<i>Payments of short-term borrowings</i>	(55,471)	(145,000)
Net cash provided by (used in) financing activities	(7,262)	(216,311)
Net increase (decrease) in cash	(25,922)	49,452
Cash at beginning of year	86,615	37,163
Cash at end of year	\$ 60,693	\$ 86,615

See accompanying notes to consolidated financial statements.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1992 and 1991

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 \$192,607 with respect to these assets for each of the years ended October 31, 1992 and 1991. Accumulated depreciation at October 31, 1992 amounted to \$2,719,109 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, 1992 and 1991

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, 1992, approximately \$73,500 of members' assessments were past due (\$93,000 in 1991). 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 filed a consolidated federal income tax return in 1991 and prior years. The Association has requested permission from the Internal Revenue Service ("IRS") to file separate (deconsolidated) tax returns for the Association and the Country Club for 1991 and 1992. As of the date of this report, tentative approval has been received from the IRS regarding the request. The provision for federal income taxes recorded in the financial statements has been calculated assuming that the request will be granted and that separate returns for the Association and Country Club would be filed. 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 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.

Statement of Cash Flows Supplemental Information

Cash paid during the year ended October 31, 1992 for interest was approximately \$16,163 (\$44,100 in 1991). Payments made for income taxes were \$48,000 (\$0 in 1991). Non-cash transactions excluded from the consolidated statements of cash flows relate to increases in real estate held for sale resulting from foreclosure activities and to issuance of notes receivable for the sale of real estate.

NOTE 3 -- LINE-OF CREDIT

The Association has a line-of-credit in the amount of \$250,000 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, 1992.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1992 and 1991

NOTE 4 -- LONG-TERM DEBT

At October 31, 1992 and 1991, long-term debt consisted of:

	1992	1991
Note payable to bank, in monthly installments of \$9,654 including interest at 9%, due July 1993, secured by golf carts	\$ 55,000	\$
Note payable to bank, in monthly installments of \$363 including interest at 13%, due June 1993, secured by transportation equipment		5,063
Note payable to bank, in monthly installments of \$2,300 including interest at 12%, due September 1995, secured by roads and grounds equipment		57,199
	55,000	62,262
Less amount due within one year	55,000	37,262
Long-term debt due after one year	\$ 0	\$ 25,000

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:

	1992	1991
Unamortized prepayments:		
Annual Prepayments	\$ 165,731	\$ 142,978
November advance billings	101,511	103,868
	\$ 267,242	\$ 246,846

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 October 31, 1992 and 1991

NOTE 6 -- FEDERAL INCOME TAXES

The Association has recorded income tax expense of \$18,000 for 1992 (\$30,400 for 1991).

A reconciliation of the expected federal income tax expense (benefit) using the statutory income tax rate of 34% to actual federal income tax expense follows:

	1992	1991
Expected federal income tax benefit	\$ (31,500)	\$ (14,200)
Effect of nondeductible depreciation expense	65,500	65,500
Effect of other items (net)	(16,000)	(20,900)
Federal income tax expense	\$ 18,000	\$ 30,400

The Association anticipates a partial refund on income taxes for the year ending October 31, 1991, as a result of the deconsolidation of the organization's federal income tax returns.

NOTE 7 -- 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 \$109,000 and \$100,000 in 1992 and 1991, 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 \$3,900 to the plan in 1992 (\$5,400 in 1991). As of September 30, 1992 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$29,000.

NOTE 8 -- LITIGATION

The Association is a defendant in a lawsuit concerning monies collected by the Association for building permits issued to builders in Pecan Plantation. In the opinion of management, based upon advice from counsel, the ultimate outcome of this lawsuit should not have a material impact on the Association's consolidated financial statements.