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CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT AUDITORS

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, 1994 and 1993, 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, 1994 and 1993, 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 23, 1994

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
CONSOLIDATED BALANCE SHEETS
October 31, 1994

| | 1994 | 1993 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 206,042 | \$ 150,063 |
| Accounts receivable: | | |
| Members, less allowance for doubtful accounts of \$37,000 in 1993 and 1994 | 264,298 | 266,564 |
| Other | 22,526 | 26,971 |
| Inventories | 128,576 | 132,860 |
| Prepaid expenses: | | |
| Insurance | 43,423 | 43,971 |
| Other | 16,728 | 18,309 |
| Total Current Assets | 681,593 | 638,738 |
| Other Assets (Note 6) | 56,000 | 42,000 |
| Long-Term Receivables From Members | 2,409 | 0 |
| Property, Plant and Equipment (Note 1) | | |
| Purchased, at cost: | | |
| Land | 72,669 | 72,669 |
| Buildings and improvements | 645,551 | 641,488 |
| Equipment and other | 1,561,099 | 1,413,793 |
| Contributed, at assigned value | 5,048,148 | 5,048,148 |
| | 7,327,467 | 7,176,098 |
| Less accumulated depreciation | (4,824,266) | (4,509,192) |
| | 2,503,201 | 2,666,906 |
| Real estate held for sale | 86,994 | 95,504 |
| | 3,330,197 | 3,443,148 |
| TOTAL ASSETS | \$ 3,330,197 | \$ 3,443,148 |
| LIABILITIES AND MEMBERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 163,214 | \$ 173,748 |
| Federal income taxes payable (Note 5) | 8,195 | |
| Accrued liabilities | | |
| Payroll | 44,637 | 42,414 |
| Property taxes | 26,093 | 24,044 |
| Other | 13,078 | 30,590 |
| Deferred revenues, members' assessments (Note 4) | 281,281 | 275,087 |
| Rental deposits | 4,000 | 4,000 |
| Total Current Liabilities | 540,498 | 549,883 |
| Deferred employee benefits (Note 6) | 56,000 | 42,000 |
| Members' Equity (Note 1) | 2,733,699 | 2,851,265 |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | \$ 3,330,197 | \$ 3,443,148 |

See Accompanying Notes to Consolidated Financial Statements.

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

| | <u>1994</u> | <u>1993</u> |
|--|---------------------|--------------------|
| Revenues: | | |
| Members' assessments | \$ 1,421,079 | \$ 1,394,548 |
| Food and beverage | 692,010 | 615,801 |
| Inn | 182,983 | 184,527 |
| Club | 88,993 | 95,940 |
| Golf | 461,751 | 453,779 |
| Marina | 247,662 | 205,527 |
| Roads and grounds/recreation | 185,421 | 165,419 |
| Other | 140,028 | 104,341 |
| | <u>3,419,927</u> | <u>3,219,882</u> |
| Expenses: | | |
| Food and beverage | 745,324 | 628,706 |
| Inn | 217,471 | 207,861 |
| Club and administration | 924,916 | 925,284 |
| Golf | 543,487 | 508,284 |
| Marina | 220,746 | 180,565 |
| Roads and grounds/recreation | 306,684 | 285,566 |
| Security | 248,096 | 223,065 |
| | <u>3,206,724</u> | <u>2,959,331</u> |
| Revenues over (under) expenses before depreciation and federal income tax | <u>213,203</u> | <u>260,551</u> |
| Less depreciation expense (Note 1): | | |
| Purchased assets | 129,974 | 140,396 |
| Contributed assets | 192,600 | 192,600 |
| | <u>322,574</u> | <u>332,996</u> |
| Income (loss) before federal income tax | (109,371) | (72,445) |
| Federal income tax (Note 5) | <u>8,195</u> | <u>1,381</u> |
| Net income (loss) | <u>\$ (117,566)</u> | <u>\$ (73,826)</u> |

See Accompanying Notes to Consolidated Financial Statements.

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

| | 1994 | 1993 |
|---|--------------|-------------|
| Operating Activities | | |
| Net loss | \$ (117,566) | \$ (73,826) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 322,574 | 332,996 |
| Bad debt expense | 6,292 | 4,323 |
| Gain on sale of equipment and real estate | (17,601) | (1,283) |
| (Increase) decrease in accounts receivable, before bad debt expense | 6,711 | (1,353) |
| (Increase) decrease in long-term receivable from members | (2,409) | 839 |
| (Increase) decrease in inventories | (4,284) | 3,597 |
| (Increase) decrease in prepaid expenses | 2,129 | 10,798 |
| (Increase) decrease in real estate held for sale | (8,510) | (10,672) |
| Increase (decrease) in deferred revenues | 6,194 | 7,845 |
| Increase (decrease) in accounts payable | (10,534) | (12,438) |
| Increase (decrease) in federal income taxes payable | 8,195 | |
| Increase (decrease) in accrued liabilities | (13,240) | (7,745) |
| Total adjustments | 295,517 | 326,907 |
| Net cash provided by (used in) operating activities | 177,951 | 253,081 |
| Investing Activities | | |
| Capital expenditures | (151,369) | (105,633) |
| Proceeds from sale of real estate | 36,098 | 9,571 |
| Proceeds from sale of assets | 3,000 | 200 |
| Other | (9,701) | (12,849) |
| Net cash provided by (used in) investing activities | (121,972) | (108,711) |
| Financing Activities | | |
| Payments of short-term borrowings | | (55,000) |
| Net cash provided by (used in) financing activities | 0 | (55,000) |
| Net increase (decrease) in cash | 55,979 | 89,370 |
| Cash at beginning of year | 150,063 | 60,693 |
| Cash at end of year | \$ 206,042 | \$ 150,063 |

See Accompanying Notes to Consolidated Financial Statements.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 October 31, 1994 and 1993

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 |
| | | \$ 5,048,148 |

The Association recorded depreciation expense of \$192,600 with respect to these assets for each of the years ended October 31, 1994 and 1993. Accumulated depreciation at October 31, 1994 amounted to \$3,104,310 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, 1994 and 1993

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, 1994, approximately \$62,200 of members' assessments were past due (\$74,000 in 1993). 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, 1994 and 1993, 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, 1994 and 1993.

Statement of Cash Flows Supplemental Information

Cash paid during the year ended October 31, 1994 for interest was approximately \$1,677 (\$7,103 in 1993). Payments made for income taxes were \$7,169 in 1994 (\$0 in 1993).

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1994 and 1993

NOTE 3 -- SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Association has concentrated its credit risk for cash by maintaining deposits in a local bank. The maximum loss that would have resulted from that risk totalled \$100,000 at October 31, 1994 for the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by federal insurance.

Credit risk for accounts and notes receivable is concentrated as well because substantially all of the balances are receivable from individuals located within the same geographic region.

NOTE 4 -- 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:

| | 1994 | 1993 |
|---------------------------|------------|------------|
| Unamortized prepayments: | | |
| Annual Prepayments | \$ 175,738 | \$ 172,883 |
| November advance billings | 105,543 | 102,204 |
| | \$ 281,281 | \$ 275,087 |

NOTE 5 -- FEDERAL INCOME TAXES

The Association has recorded income tax expense of \$8,195 for 1994 (\$1,381 for 1993).

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

| | 1994 | 1993 |
|--|----------|----------|
| Federal Income Tax on non exempt income of the association | \$ 8,195 | \$ 7,169 |
| Effect of refund from prior years overpayments | | (5,788) |
| Federal income tax expense | \$ 8,195 | \$ 1,381 |

Net operating losses of the country club for fiscal years ended October 31, 1994 and 1993 were approximately \$253,000 and \$170,000, respectively. No tax benefit has been reported in the financial statements regarding net operating losses of the country club because the Association believes there is at least a 50% chance that the carryforward will expire unused.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1994 and 1993

NOTE 6 -- EMPLOYEE BENEFITS

The Association provides certain health care and life insurance benefits for all full-time employees (approximately 51). The Association and participants pay monthly costs and expenses to the plan for administration and claims. These costs were approximately \$123,000 and \$135,000 in 1994 and 1993, 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 \$7,500 to the plan in 1994 (\$4,500 in 1993). As of September 30, 1994 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$56,000.

NOTE 7 -- LITIGATION

At October 31, 1994, 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 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.

NOTE 9 -- RELATED PARTIES

The Executive Committee of the Association serves as the Board of Directors for Pecan Plantation Volunteer Fire Department, Inc. The Volunteer Fire Department is considered to be a separate reporting entity from the Association.