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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, 1995 and 1994, and the related consolidated statements 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, 1995 and 1994, 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 Supplementary information about future repairs and replacements on page 13 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have compiled the supplementary information from information that is the representation of management of Pecan Plantation Owners' Association, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

*George, Morgan & Sneed, P.C.*

December 15, 1995

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
CONSOLIDATED BALANCE SHEETS  
October 31, 1995

	1995	1994
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash - undesignated	\$ 248,010	\$ 206,042
Cash - designated for contingencies	25,761	
Accounts receivable:		
Members, less allowance for doubtful accounts of \$37,000 in 1994 and 1995	321,653	264,298
Other	19,214	22,526
Inventories	139,119	128,576
Prepaid expenses:		
Insurance	15,587	43,423
Other	14,029	16,728
<b>Total Current Assets</b>	<b>783,373</b>	<b>681,593</b>
 Other Assets (Note 6)	 50,000	 56,000
 Long-Term Receivables From Members	 1,444	 2,409
 Property, Plant and Equipment (Note 1)		
Purchased, at cost:		
Land	72,669	72,669
Buildings and improvements	823,648	645,551
Equipment and other	1,686,851	1,561,099
Contributed, at assigned value	5,048,148	5,048,148
	7,631,316	7,327,467
Less accumulated depreciation	(5,154,313)	(4,824,266)
	2,477,003	2,503,201
Real estate held for sale	79,812	86,994
	2,556,815	2,590,195
 <b>TOTAL ASSETS</b>	<b>\$ 3,391,632</b>	<b>\$ 3,330,197</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 147,729	\$ 163,214
Federal income taxes payable (Note 5)		8,195
Accrued liabilities		
Payroll	61,348	44,637
Property taxes	26,081	26,093
Other	57,539	13,078
Deferred revenues, members' assessments (Note 4)	285,584	281,281
Rental deposits	3,500	4,000
<b>Total Current Liabilities</b>	<b>581,781</b>	<b>540,498</b>
 Deferred employee benefits (Note 6)	 50,000	 56,000
 Members' Equity (Note 1)	 2,759,851	 2,733,699
 <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 3,391,632</b>	<b>\$ 3,330,197</b>

See Accompanying Notes to Consolidated Financial Statements.

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

	<u>1995</u>	<u>1994</u>
Revenues:		
Members' assessments	\$ 1,594,194	\$ 1,421,079
Food and beverage	656,857	692,010
Inn	204,524	182,983
Club	190,982	88,993
Golf	503,870	461,751
Marina	308,045	247,662
Roads and grounds/recreation	112,760	185,421
Other	155,970	140,028
	<u>3,727,202</u>	<u>3,419,927</u>
Expenses:		
Food and beverage	732,347	745,324
Inn	224,456	217,471
Club and administration	1,042,529	924,916
Golf	544,604	543,487
Marina	297,692	220,746
Roads and grounds/recreation	268,338	306,684
Security	254,303	248,096
	<u>3,364,269</u>	<u>3,206,724</u>
Revenues over (under) expenses before depreciation and federal income tax	<u>362,933</u>	<u>213,203</u>
Less depreciation expense (Note 1):		
Purchased assets	144,181	129,974
Contributed assets	192,600	192,600
	<u>336,781</u>	<u>322,574</u>
Income (loss) before federal income tax	26,152	(109,371)
Federal income tax (Note 5)	<u>          </u>	<u>8,195</u>
Net income (loss)	<u>\$ 26,152</u>	<u>\$ (117,566)</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, 1995 and 1994

	<u>Capital Contributions</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at October 31, 1993	\$ 5,423,984	\$ (2,572,719)	\$ 2,851,265
Net loss	<u>                    </u>	<u>(117,566)</u>	<u>(117,566)</u>
Balance at October 31, 1994	\$ <u>5,423,984</u>	\$ <u>(2,690,285)</u>	\$ <u>2,733,699</u>
Net profit	<u>                    </u>	<u>26,152</u>	<u>26,152</u>
Balance at October 31, 1995	\$ <u>5,423,984</u>	\$ <u>(2,664,133)</u>	\$ <u>2,759,851</u>

See Accompanying Notes to Consolidated Financial Statements.

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

	1995	1994
Operating Activities		
Net profit (loss)	\$ 26,152	\$ (117,566)
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:		
Depreciation	336,781	322,574
Bad debt expense	1,440	6,292
Gain on sale of real estate	(30,516)	(17,601)
(Increase) decrease in accounts receivable, before bad debt expense	(54,043)	6,711
(Increase) decrease in long-term receivable from member	965	(2,409)
(Increase) decrease in inventories	(10,543)	(4,284)
(Increase) decrease in prepaid expenses	30,535	2,129
(Increase) decrease in real estate held for sale	7,182	(8,510)
Increase (decrease) in deferred revenues	4,303	6,194
Increase (decrease) in accounts payable	(15,485)	(10,534)
Increase (decrease) in federal income taxes payable	(8,195)	8,195
Increase (decrease) in rental deposits	(500)	
Increase (decrease) in accrued liabilities	61,160	(13,240)
Total adjustments	323,084	295,517
Net cash provided by (used in) operating activities	349,236	177,951
Investing Activities		
Capital expenditures	(327,017)	(151,369)
Proceeds from sale of real estate (Net)	45,510	36,098
Proceeds from sale of assets		3,000
Other		(9,701)
Net cash provided by (used in) investing activities	(281,507)	(121,972)
Financing Activities		
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash	67,729	55,979
Cash at beginning of year	206,042	150,063
Cash at end of year	\$ 273,771	\$ 206,042

See Accompanying Notes to Consolidated Financial Statements.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 October 31, 1995 and 1994

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, 1995 and 1994. Accumulated depreciation at October 31, 1995 amounted to \$3,296,910 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, 1995 and 1994

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, 1995, approximately \$89,000 of members' assessments were past due (\$62,200 in 1994). 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, 1995 and 1994, 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, 1995 and 1994.

Statement of Cash Flows Supplemental Information

Cash paid during the year ended October 31, 1995 for interest was approximately \$1,256 (\$1,677 in 1994). Payments made for income taxes were \$8,195 in 1995 (\$7,169 in 1994).

PECAN PLANTATION OWNERS' ASSOCIATION, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 October 31, 1995 and 1994

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 was approximately \$127,000 at October 31, 1995 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:

	1995	1994
Unamortized prepayments:		
Annual Prepayments	\$ 155,663	\$ 175,738
November advance billings	129,921	105,543
	\$ 285,584	\$ 281,281

NOTE 5 -- FEDERAL INCOME TAXES

The Association has recorded income tax expense of \$0 for 1995 (\$8,195 for 1994).

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

	1995	1994
Federal Income Tax on non exempt income of the association	\$ 0	\$ 8,195
Effect of refund from prior years overpayments		
Federal income tax expense	\$ 0	\$ 8,195

Net operating losses of the country club for fiscal years ended October 31, 1995 and 1994 were approximately \$234,000 and \$253,000, 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, 1995 and 1994

NOTE 6 -- EMPLOYEE BENEFITS

The Association provides certain health care and life insurance benefits for all full-time employees (approximately 65). The Association and participants pay monthly costs and expenses to the plan for administration and claims. These costs were approximately \$113,000 and \$123,000 in 1995 and 1994, respectively, and are included in the various departmental expenses.

The Association participates in a multi-employer non-qualified 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. As of October 31, 1995 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$50,000.

NOTE 7 -- LITIGATION

At October 31, 1995, 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 board of directors conducted a study in January 1995 to estimate the remaining useful lives and the replacement costs of the common property components and is summarized on page 13 of this report. 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.

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.