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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, 1996 and 1995, 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, 1996 and 1995, 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 estimated the remaining lives and replacement costs of the common property and, therefore, has not presented supplementary information 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.

George, Morgan, & Sneed, P.C.

December 20, 1996

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
CONSOLIDATED BALANCE SHEETS
October 31, 1996

	1996	1995
ASSETS		
Current Assets		
Cash - undesignated	\$ 123,989	\$ 248,010
Cash - designated	96,203	25,761
Accounts receivable:		
Members, less allowance for doubtful accounts of \$30,000 in 1996 and \$37,000 in 1995	339,079	321,653
Other	30,639	19,214
Inventories	119,448	139,119
Prepaid expenses:		
Insurance	45,854	15,587
Other	5,400	14,029
Total Current Assets	760,612	783,373
Other Assets (Note 6)	59,016	50,000
Long-Term Receivables From Members	379	1,444
Property, Plant and Equipment (Note 1)		
Purchased, at cost:		
Land	72,669	72,669
Buildings and improvements	1,008,037	823,648
Equipment and other	1,822,328	1,686,851
Contributed, at assigned value	5,048,148	5,048,148
	7,951,182	7,631,316
Less accumulated depreciation	(5,509,337)	(5,154,313)
	2,441,845	2,477,003
Real estate held for sale	93,867	79,812
Real estate held for sale	93,867	79,812
TOTAL ASSETS	\$ 3,355,719	\$ 3,391,632
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 176,932	\$ 147,729
Accrued liabilities		
Payroll	81,489	61,348
Property taxes	26,369	26,081
Other	28,416	57,539
Deferred revenues, members' assessments (Note 4)	152,644	285,584
Rental deposits	3,500	3,500
Total Current Liabilities	469,350	581,781
Deferred employee benefits (Note 6)	59,016	50,000
Members' Equity (Note 1)	2,827,353	2,759,851
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,355,719	\$ 3,391,632

See Accompanying Notes to Consolidated Financial Statements

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

	<u>1996</u>	<u>1995</u>
Revenues:		
Members' assessments	\$ 1,748,460	\$ 1,594,194
Food and beverage	673,877	656,857
Inn	204,608	204,524
Club	197,136	190,982
Golf	484,965	503,870
Marina	340,352	308,045
Roads and grounds/recreation	109,684	112,760
Other administration & security	168,081	155,970
	<u>3,927,163</u>	<u>3,727,202</u>
Expenses:		
Food and beverage	765,102	732,347
Inn	240,488	224,456
Club and administration	1,150,953	1,042,529
Golf	567,509	544,604
Marina	334,571	297,692
Roads and grounds/recreation	218,409	268,338
Security	270,913	254,303
	<u>3,547,945</u>	<u>3,364,269</u>
Revenues over expenses before depreciation	<u>379,218</u>	<u>362,933</u>
Less depreciation expense (Note 1):		
Purchased assets	183,984	144,181
Contributed assets	192,600	192,600
	<u>376,584</u>	<u>336,781</u>
Net income	\$ <u><u>2,634</u></u>	\$ <u><u>26,152</u></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, 1996 and 1995

	<u>Capital Contributions</u>	<u>Accumulated Deficit</u>	<u>Desinated for Future Repairs and Replacements</u>	<u>Total</u>
Balance at October 31, 1994	\$ <u>5,423,984</u>	\$ <u>(2,690,285)</u>	\$ _____	\$ <u>2,733,699</u>
Net profit	_____	<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>
Excess revenue over expense	_____	<u>2,633</u>	_____	<u>2,633</u>
Allocated for future repairs and replacements:				
Contributions			64,869	64,869
Transfers to undesignated equity	_____	<u>11,936</u>	<u>(11,936)</u>	_____
Balance at October 31, 1996	\$ <u><u>5,423,984</u></u>	\$ <u><u>(2,649,564)</u></u>	<u><u>52,933</u></u>	\$ <u><u>2,827,353</u></u>

See Accompanying Notes to Consolidated Financial Statements.

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

	<u>1996</u>	<u>1995</u>
Operating Activities		
Net income	\$ 2,634	\$ 26,152
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	376,584	336,781
Bad debt expense	22,943	1,440
Gain on sale of equipment and real estate	(31,771)	(30,516)
Increase in accounts receivable, before bad debt expense	(84,703)	(54,043)
Decrease in long-term receivable-members	1,065	965
Decrease (Increase) in inventories	19,671	(10,543)
(Increase) decrease in prepaid expenses	(30,654)	30,535
(Increase) decrease in real estate held for sale	(14,055)	7,182
(Decrease) increase in deferred revenues	(132,940)	4,303
Increase (decrease) in accounts payable	29,203	(15,485)
Decrease in federal income taxes payable		(8,195)
Decrease in rental deposits		(500)
(Decrease) increase in accrued liabilities	(8,694)	61,160
Total adjustments	<u>146,649</u>	<u>323,084</u>
Net cash provided by (used in) operating activities	<u>149,283</u>	<u>349,236</u>
Investing Activities		
Capital expenditures	(324,403)	(327,017)
Proceeds from sale of real estate	45,250	45,510
Proceeds from sale of assets	<u>11,423</u>	
Net cash provided by (used in) investing activities	<u>(267,730)</u>	<u>(281,507)</u>
Financing Activities		
Designated Capital contributions	<u>64,868</u>	
Net cash provided by (used in) financing activities	<u>64,868</u>	
Net increase (decrease) in cash	(53,579)	67,729
Cash at beginning of year	<u>273,771</u>	<u>206,042</u>
Cash at end of year	\$ <u>220,192</u>	\$ <u>273,771</u>

See Accompanying Notes to Consolidated Financial Statements

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 October 31, 1996 and 1995

NOTE 1 – HISTORY OF ASSOCIATION

Pecan Plantations 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 1,275 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.

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 with respect to these assets for each of the years ended October 31, 1996 and 1995. Accumulated depreciation at October 31, 1996 amounted to \$3,489,510 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, 1996 and 1995

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, 1996, approximately \$101,000 of members' assessments and related club usage charges were past due (\$89,000 in 1995). 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, 1996 and 1995, 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, 1996 and 1995.

Statement of Cash Flows Supplemental Information

Cash paid during the year ended October 31, 1996 for interest was approximately \$342 (\$1,256 in 1995). No payments were made for income taxes in 1996 (\$8,195 was paid in 1995).

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1996 and 1995

NOTE 3 -- SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Association established a second banking relationship in 1996 in order to minimize credit risk for cash. The maximum loss that would have resulted from that risk was approximately \$8,300 at October 31, 1996 (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

Members' assessments are billed one month in advance. Such advance billings are recorded as income in the month following the billing. Members may also pre-pay their accounts at any time, although in 1996, the Association eliminated any discount for doing so. At October 31, deferred revenues resulting from the above policy consisted of:

	<u>1996</u>	<u>1995</u>
Unamortized prepayments:		
Annual Prepayments	\$ 4,725	\$ 155,663
November advance billings	<u>147,918</u>	<u>129,921</u>
	<u>\$ 152,643</u>	<u>\$ 285,584</u>

NOTE 5 -- FEDERAL INCOME TAXES

The Association has recorded no income tax expense for 1996 and 1995, respectively.

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 because the Association believes there is at least a 50% chance that the carry forward will expire unused.

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 \$130,000 and \$113,000 in 1996 and 1995, respectively, and are included in the various departmental expenses.

The Association participates in a 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, 1996 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$59,000.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1996 and 1995

NOTE 7 – LITIGATION

At October 31, 1996, 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 is currently conducting a study to estimate the remaining useful lives and the replacement costs of the common property components. 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.