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CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
AMERICAN INSTITUTE
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TEXAS SOCIETY
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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, 1997 and 1996, 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, 1997 and 1996, 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.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
CONSOLIDATED BALANCE SHEETS
October 31, 1997

	1997	1996
ASSETS		
Current Assets		
Cash - undesignated	\$ 114,971	\$ 123,989
Cash - designated	84,470	96,203
Accounts receivable:		
Members, less allowance for doubtful accounts of \$40,000 in 1997 and \$30,000 in 1996	339,605	339,079
Other	29,221	30,639
Inventories	121,636	119,448
Prepaid expenses:		
Insurance	37,243	45,854
Other	12,629	5,400
Total Current Assets	739,775	760,612
Other Assets (Note 6)	75,580	59,016
Long-Term Receivables From Members		379
Property, Plant and Equipment (Note 1)		
Purchased, at cost:		
Land	72,669	72,669
Buildings and improvements	831,064	1,008,037
Equipment and other	2,294,619	1,822,328
Contributed, at assigned value	5,048,148	5,048,148
	8,246,500	7,951,182
Less accumulated depreciation	(5,930,812)	(5,509,337)
	2,315,688	2,441,845
Real estate held for sale	97,675	93,867
	97,675	93,867
TOTAL ASSETS	\$ 3,228,718	\$ 3,355,719
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 230,345	\$ 176,932
Accrued liabilities		
Payroll	90,747	81,489
Property taxes	27,822	26,369
Other	53,635	28,416
Deferred revenues, members' assessments (Note 4)	143,559	152,644
Rental deposits	8,004	3,500
Total Current Liabilities	554,112	469,350
Deferred employee benefits (Note 6)	75,580	59,016
Members' Equity (Note 1)	2,599,026	2,827,353
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,228,718	\$ 3,355,719

See Accompanying Notes to Consolidated Financial Statements

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

	<u>1997</u>	<u>1996</u>
Revenues:		
Members' assessments	\$ 1,786,505	\$ 1,748,460
Food and beverage	670,748	673,877
Inn	169,913	204,608
Club	142,344	197,136
Golf	453,585	484,965
Marina	360,982	340,352
Roads and grounds/recreation	90,450	109,684
Other administration & security	205,783	168,081
	<u>3,880,310</u>	<u>3,927,163</u>
Expenses:		
Food and beverage	764,550	765,102
Inn	220,384	240,488
Club and administration	1,244,035	1,150,953
Golf	581,854	567,509
Marina	365,230	334,571
Roads and grounds/recreation	205,241	218,409
Security	328,040	270,913
	<u>3,709,334</u>	<u>3,547,945</u>
Revenues over expenses before depreciation	<u>170,976</u>	<u>379,218</u>
Less depreciation expense (Note 1)		
Purchased assets	235,362	183,984
Contributed assets	192,600	192,600
	<u>427,962</u>	<u>376,584</u>
Net income (loss)	\$ <u>(256,986)</u>	\$ <u>2,634</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, 1997 and 1996

	<u>Capital Contributions</u>	<u>Accumulated Deficit</u>	<u>Desinated for Future Repairs and Replacements</u>	<u>Total</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		2,633		2,633
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>5,423,984</u>	\$ <u>(2,649,564)</u>	\$ <u>52,933</u>	\$ <u>2,827,353</u>
Excess expense over revenue		(256,986)		(256,986)
Allocated for future repairs and replacements:				
Contributions			28,659	28,659
Transfers to undesignated equity	_____	<u>68,032</u>	<u>(68,032)</u>	_____
Balance at October 31, 1997	\$ <u><u>5,423,984</u></u>	\$ <u><u>(2,838,518)</u></u>	\$ <u><u>13,560</u></u>	\$ <u><u>2,599,026</u></u>

See Accompanying Notes to Consolidated Financial Statements.

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

	<u>1997</u>	<u>1996</u>
Operating Activities		
Net income (loss)	\$ <u>(256,986)</u>	\$ <u>2,634</u>
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	427,962	376,584
Bad debt expense	15,177	22,943
Gain on sale of equipment and real estate	(25,333)	(31,771)
Increase in accounts receivable, before bad debt expense	(9,108)	(84,703)
Decrease in long-term receivable-members	379	1,065
Decrease (Increase) in inventories	(2,188)	19,671
(Increase) decrease in prepaid expenses	1,382	(30,654)
(Increase) decrease in real estate held for sale	(3,808)	(14,055)
(Decrease) increase in deferred revenues	(9,085)	(132,940)
Increase (decrease) in accounts payable	54,413	29,203
Increase in rental deposits	4,504	
(Decrease) increase in accrued liabilities	35,930	(8,694)
Total adjustments	<u>490,225</u>	<u>146,649</u>
Net cash provided by (used in) operating activities	<u>233,239</u>	<u>149,283</u>
Investing Activities		
Capital expenditures	(321,517)	(324,403)
Proceeds from sale of real estate	38,528	45,250
Proceeds from sale of assets	340	11,423
Net cash provided by (used in) investing activities	<u>(282,649)</u>	<u>(267,730)</u>
Financing Activities		
Designated Capital contributions	<u>28,659</u>	<u>64,868</u>
Net cash provided by (used in) financing activities	<u>28,659</u>	<u>64,868</u>
Net increase (decrease) in cash	(20,751)	(53,579)
Cash at beginning of year	<u>220,192</u>	<u>273,771</u>
Cash at end of year	\$ <u><u>199,441</u></u>	\$ <u><u>220,192</u></u>

See Accompanying Notes to Consolidated Financial Statements

OTHER FINANCIAL INFORMATION

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1997 and 1996

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 1,350 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, 1997 and 1996. Accumulated depreciation at October 31, 1997 amounted to \$3,682,110 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. Certain amounts previously reported have been reclassified to conform to the current format.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1997 and 1996

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, 1997, approximately \$96,000 of members' assessments and related club usage charges were past due (\$101,000 in 1996). 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, 1997 and 1996, 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, 1997 and 1996.

Statement of Cash Flows Supplemental Information

Cash paid during the year ended October 31, 1997 for interest was approximately \$350 (\$342 in 1996). No payments were made for income taxes in 1997 and 1996.

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, 1997 and 1996

NOTE 3 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Association is considered to have concentrated its credit risk with respect to cash by maintaining bank deposits in excess of federal insurance. The maximum loss that would have resulted from that risk was approximately \$62,000 at October 31, 1997 (approximately \$8,000 at October 31, 1996) 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. Deferred revenues were \$143,559 and \$152,643 as of December 31, 1997 and 1996, respectively.

NOTE 5 – FEDERAL INCOME TAXES

The Association has recorded no income tax expense for 1997 and 1996, 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 \$105,000 and \$130,000 in 1997 and 1996, 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, 1997 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$76,000.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1997 and 1996

NOTE 7 – LITIGATION

At October 31, 1997, 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.