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#### CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

AMERICAN INSTITUTE
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PUBLIC ACCOUNTANTS
AND

TEXAS SOCIETY
OF CERTIFIED

PUBLIC ACCOUNTANTS

#### 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, 1998 and 1997, and the related consolidated statements of revenues, expenses, and changes in fund balances and cash flows for the years then ended. These consolidated 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

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 19, 1998

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

Section   Sect		Operating	Replacement	Totals	
Current Assets         Cash, including interest-bearing deposits         \$224,333         \$173,983         \$398,316         \$199,414           Cash, including interest-bearing deposits         150,099         199,414         349,473         -           Accounts receivable:         Interporary investments         349,473         -           Members, less allowance for doubtful accounts of \$34,161 in 1998 and \$40,000 in 1997         387,527         387,527         339,605           Other         20,977         20,977         20,977         29,221           Inventories         132,090         132,090         121,636           Prepaid expenses:         -         -         137,222         13,722         1,725         12,629           Insurance         50,858         50,858         37,337         1,352,963         739,775         75,580           Other         13,722         77,250         77,250         75,580         76,699         72,669         73,797,750         75,580           Property, Plant and Equipment (Note 1)         -		Fund	Fund	1998	1997
Cash, including interest-bearing deposits         \$224,333         \$173,983         \$398,316         \$ \$199,441           Temporary investments         150,059         199,414         349,473         349,473           Accounts receivable:         Wembers, less allowance for doubtful accounts of \$34,161 in 1998 and \$40,000 in 1997         387,527         387,527         329,605           Other         20,977         20,977         29,221           Inventories         132,090         132,090         121,536           Prepaid expenses:         13,722         13,722         12,629           Other         13,722         13,722         12,629           Total Current Assets         979,566         373,397         1,352,963         739,775           Other Assets (Note 6)         77,250         77,250         75,580           Property, Plant and Equipment (Note 1)         72,669         72,669         72,669           Buildings and improvements         878,237         878,237         831,064           Equipment and other         2,449,754         2,449,754         2,249,619           Contributed, at assigned value         5,048,148         38,790         8,487,598         8,246,500           Contributed, at assigned value         6,299,608)         8,487,598 </td <td>ASSETS</td> <td></td> <td></td> <td></td> <td></td>	ASSETS				
Temporary investments					
Accounts receivable:  Members, less allowance for doubtful accounts of \$34,161 in 1998 and \$40,000 in 1997 Other 20,977 20,977 20,977 20,977 22,221 Inventories 132,090 132,090 121,636 Prepaid expenses: Insurance 50,858 Other 13,722 Total Current Assets 979,566 373,397  Other 33,7322 Total Current Assets 979,566  Other 37,250  Other 37,250  Other 37,250  Other 38,237  Other Assets (Note 6)  Property, Plant and Equipment (Note 1)  Purchased, at cost:  Land 72,669  Buildings and improvements 878,237  Equipment and other 2,449,754  Construction in progress  Contributed, at assigned value 5,048,148  Less accumulated depreciation (5,299,608)  Less accumulated depreciation (6,299,608)  Real estate held for sale 81,034  Real estate held for sale 81,034  Accounts payable \$182,754  Accounts payable \$182,754  Accounts payable \$182,754  Accounts payable 9,256  Accounts		\$224,333	\$173,983	\$398,316 \$	\$199,441
Members, less allowance for doubtful accounts of \$34,161 in 1998 and \$40,000 in 1997         387,527         389,527         20,977         29,221           Other         20,977         20,977         29,221           Inventories         132,090         132,090         121,636           Prepaid expenses:         Insurance         50,858         50,858         37,243           Other         13,722         13,722         12,629           Total Current Assets         979,566         373,397         1,352,963         739,775           Other Assets (Note 6)         77,250         77,250         75,580           Property, Plant and Equipment (Note 1)         77,250         77,250         75,580           Property, Plant and Equipment (Note 1)         77,269         72,669         72,669           Buildings and improvements         878,237         878,237         831,064           Equipment and other         2,449,754         2,449,754         2,449,754         2,294,619           Contributed, at assigned value         8,448,808         38,790         38,790         38,790           Less accumulated depreciation         (6,299,608)         (6,299,608)         (5,930,812)           Real estate held for sale         81,034         81,034	Temporary investments	150,059	199,414	349,473	-
of \$34,161 in 1998 and \$40,000 in 1997         387,527         389,505         339,605         Other         20,977         29,221         1,000         1,21,636         Prepaid expenses:         132,090         132,090         121,636         Prepaid expenses:         1,000         1,000         1,000         1,000         2,000	Accounts receivable:		·	,	
Other         20,977         20,977         29,221           Inventories         132,090         120,090         121,636           Prepaid expenses:         Insurance         50,858         50,858         37,243           Other         13,772         13,772         12,629           Total Current Assets         979,566         373,397         1,352,963         73,975           Other Assets (Note 6)         77,250         77,250         75,580           Property, Plant and Equipment (Note 1)         Purchased, at cost:         2         47,269         72,669         72,669         83,237         831,064           Edulignent and other         2,449,754         2,449,754         2,244,754         2,294,619	Members, less allowance for doubtful accounts				
Other Inventories         20 977 (32,097)         20 977 (20 977)         20 977 (20 977)         20 977 (20 977)         20 977 (20 977)         20 977 (20 977)         132,090 (20 977)         132,090 (20 977)         132,090 (20 977)         120 977 (20 977)         121 (20 977)         121 (20 977)         121 (20 977)         121 (20 977)         121 (20 977)         121 (20 977)         121 (20 977)         121 (20 977)         121 (20 977)         122 (20 977)         123	of \$34,161 in 1998 and \$40,000 in 1997	387.527		387.527	339 605
Inventories	Other			•	,
Prepaid expenses:	Inventories			•	•
Insurance Other Other         50,858 13,724 13,722 12,629         373,722 12,629         12,722 12,629         12,629         13,722 12,629         12,629         13,722 12,629         12,629         12,629         13,722 12,629         12,629<	Prepaid expenses:	,		,	,_,,
Other Total Current Assets         13,722         13,722         12,629           Total Current Assets         979,566         373,397         1,352,963         739,775           Other Assets (Note 6)         77,250         77,250         75,580           Property, Plant and Equipment (Note 1)         Purchased, at cost:         878,237         878,237         831,064           Equipment and other Construction in progress         878,237         878,237         831,064         2,449,754         2,244,9754         2,294,619           Construction in progress         38,790         38,790         38,790         38,790         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         6,299,608)         (6,299,608)         (6,299,608)         (6,299,608)         (5,930,812)         2,149,200         38,790         2,187,990         2,315,688         8,448,98         38,790         2,187,990         2,315,688         8,448,98         38,790         2,187,990         2,315,688         8,442,508         8,124,509         2,187,990         2,315,688         8,442,508         8,124,509         2,187,990         2,315,688         8,442,508         8,182,754         8,242,709         3,228,718         1,242,749 <td></td> <td>50.858</td> <td></td> <td>50 858</td> <td>37 243</td>		50.858		50 858	37 243
Total Current Assets         979,566         373,397         1,352,963         739,775           Other Assets (Note 6)         77,250         77,250         75,580           Property, Plant and Equipment (Note 1)         72,669         72,669         72,669         72,669           Buildings and improvements         878,237         878,237         831,064         2,449,754         2,449,754         2,244,9754         2,244,872         2,244,872         2,315,682	Other	•			•
Other Assets (Note 6)         77,250         75,580           Property, Plant and Equipment (Note 1)         72,669         72,669         72,669         72,669         80,269         72,669         72,669         72,669         81,069	Total Current Assets		373 397	1 352 963	
Property, Plant and Equipment (Note 1) Purchased, at cost:  Land Buildings and improvements Equipment and other Construction in progress Contributed, at assigned value Ess accumulated depreciation Ess accumulated for sale  Real estate held for sale  LIABILITIES AND FUND BALANCES Current Liabilities Accorunts payable Accurued liabilities Payroll Property taxes Other Payable Payable Payroll Property taxes Deferred revenues, members' assessments Note Payable Rental deposits Total Current Liabilities Payroll Property days Pub Accord Payable Payable Payable Rental deposits Payroll Property taxes Payable Payable Rental deposits Payable					755,770
Purchased, at cost:         72,669         72,669         72,669         72,669         72,669         72,669         72,669         80,237         831,064         831,064         831,064         831,064         831,064         831,064         2,449,754         2,449,754         2,294,619         2,294,619         2,294,619         38,790         38,790	Other Assets (Note 6)	77,250		77,250	75,580
Purchased, at cost:         72,669         72,669         72,669         72,669         72,669         72,669         72,669         80,237         831,064         831,064         831,064         831,064         831,064         831,064         2,449,754         2,449,754         2,294,619         2,294,619         2,294,619         38,790         38,790	Property, Plant and Equipment (Note 1)				
Buildings and improvements         878,237         878,237         831,064           Equipment and other         2,449,754         2,449,754         2,244,754         2,294,619           Construction in progress         38,790         38,790         38,790         38,790         38,790         5,048,148         6,299,608         (6,299,608)         (6,299,608)         (6,299,608)         (6,299,608)         (6,299,608)         (6,299,608)         (7,257         \$3,228,718           LIABLITIES AND FUND BALANCES           Current Liabilities         \$182,754         \$182					
Buildings and improvements         878,237         878,237         831,064           Equipment and other         2,449,754         2,449,754         2,449,754         2,244,619           Construction in progress         38,790         38,790         38,790         38,790         38,790         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         5,048,148         6,299,608)         8,246,500         6,299,608)         6,593,608,12)         2,2187,990         2,315,688         8,1034         9,7,675         2,187,990         2,315,688         8,1034         81,034         97,675         3,228,718           TOTAL ASSETS         \$3,287,050         \$412,187         \$3,699,237         \$3,228,718         \$3,228,718           LIABILITIES AND FUND BALANCES           Current Liabilities         \$182,754         \$182,754         \$230,345           Accounts payable         \$182,754         \$182,754         \$230,345           Accrued liabilities         29,569         29,569         29,569         29,569         27,822           Other         41,524         41,524         41,524         53,635           Deferred revenues, members' assessments         30,232	•	72 669		72 669	72 669
Equipment and other Construction in progress Contributed, at assigned value         2,449,754         2,449,754         2,294,619           Contributed, at assigned value         5,048,148         38,790         38,790         8,487,598         8,246,500           Less accumulated depreciation         (6,299,608)         (6,299,608)         (6,299,608)         (5,930,812)           Real estate held for sale         81,034         38,790         2,187,990         2,315,688           Real estate held for sale         81,034         81,034         97,675           TOTAL ASSETS         \$3,287,050         \$412,187         \$3,699,237         \$3,228,718           LIABILITIES AND FUND BALANCES         Current Liabilities         \$182,754         \$182,754         \$230,345           Accounts payable         \$182,754         \$182,754         \$230,345           Accounts payable         \$19,110         109,110         90,747           Property taxes         29,569         29,569         27,822           Other         41,524         41,524         41,524         53,635           Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,500         9,500         9,500         8,004	Buildings and improvements				•
Construction in progress         38,790         38,790         5,048,148         6,030,01         6,299,608         6,299,608         6,590,81,158         7,650         7,650         7,650           TOTAL ASSETS         \$		•			•
Contributed, at assigned value         5,048,148         5,048,150         8,246,500         6,299,608)         6,299,608)         6,299,608)         6,299,608         6,249,600         6,299,608         6,249,600         2,315,688         8,246,500         2,315,688         8,1034         9,767         7,782         2,817,990         2,315,688         8,1034         9,7,675         9,750         7,820         7,820         7,7250         7,7250         7,7250         7,580         7,580         7,580         7,580         7,580         7,580         7,250         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580         7,580		_, ,	38 790		2,234,010
Less accumulated depreciation         8,448,808 (6,299,608) (6,299,608) (6,299,608) (5,930,812)         38,790 (6,299,608) (6,299,608) (5,930,812)         8,246,500 (6,299,608) (5,930,812)           Real estate held for sale         2,149,200 38,790 2,187,990 2,315,688 81,034 97,675           TOTAL ASSETS         \$3,287,050 \$412,187 \$3,699,237 \$3,228,718           LIABILITIES AND FUND BALANCES         Current Liabilities           Current Liabilities         \$182,754 \$182,754 \$230,345           Accounts payable Accrued liabilities         \$182,754 \$230,345           Payroll Property taxes 29,569 29,569 29,569 27,822         \$29,569 27,822           Other 41,524 41,524 53,635         \$1,524 53,635           Deferred revenues, members' assessments Note Payable Payable 9,254 9,254 9,254 9,254 9,254         \$1,524 9,254		5 048 148	00,700	•	5 048 148
Less accumulated depreciation         (6,299,608)         (6,299,608)         (5,930,812)           Real estate held for sale         2,149,200         38,790         2,187,990         2,315,688           Real estate held for sale         81,034         97,675           TOTAL ASSETS         \$3,287,050         \$412,187         \$3,699,237         \$3,228,718           LIABILITIES AND FUND BALANCES         Current Liabilities           Accounts payable         \$182,754         \$182,754         \$230,345           Accrued liabilities         Payroll         109,110         109,110         90,747           Property taxes         29,569         29,569         27,822           Other         41,524         53,635           Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,500         9,500         8,004           Rental deposits         9,500         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2			38 790		
Real estate held for sale       2,149,200       38,790       2,187,990       2,315,688         TOTAL ASSETS       \$3,287,050       \$412,187       \$3,699,237       \$3,228,718         LIABILITIES AND FUND BALANCES         Current Liabilities         Accounts payable       \$182,754       \$182,754       \$230,345         Accrued liabilities       Payroll       109,110       109,110       90,747         Property taxes       29,569       29,569       27,822         Other       41,524       41,524       53,635         Deferred revenues, members' assessments       302,329       407,870       710,199       143,559         Note Payable       9,254       9,254       9,254       9,254       9,254       9,500       8,004         Rental deposits       9,500       9,500       9,500       8,004       554,112         Deferred employee benefits (Note 6)       77,250       77,250       75,580         FUND BALANCES       2,525,760       4,317       2,530,077       2,599,026	Less accumulated depreciation		00,700		
Real estate held for sale         81,034         81,034         97,675           TOTAL ASSETS         \$3,287,050         \$412,187         \$3,699,237         \$3,228,718           LIABILITIES AND FUND BALANCES           Current Liabilities         Accounts payable Accounts payable Accounts payable Payroll         \$182,754         \$182,754         \$230,345           Accrued liabilities         109,110         109,110         90,747           Payroll         109,110         109,110         90,747           Property taxes         29,569         29,569         27,822           Other         41,524         41,524         53,635           Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,254         9,254         9,254         9,254         9,254         9,254         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026		2 149 200	38 790		
TOTAL ASSETS         \$3,287,050         \$412,187         \$3,699,237         \$3,228,718           LIABILITIES AND FUND BALANCES           Current Liabilities         \$182,754         \$182,754         \$230,345           Accrued liabilities         Payroll         109,110         109,110         90,747           Property taxes         29,569         29,569         27,822           Other         41,524         41,524         53,635           Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,254         9,254         9,254         -           Rental deposits         9,500         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026	Real estate held for sale		55,750		
LIABILITIES AND FUND BALANCES Current Liabilities Accounts payable \$182,754 \$182,754 \$230,345 Accrued liabilities Payroll 109,110 109,110 90,747 Property taxes 29,569 29,569 27,822 Other 41,524 41,524 53,635 Deferred revenues, members' assessments 302,329 407,870 710,199 143,559 Note Payable 9,254 9,254 9,254 Rental deposits 9,500 9,500 8,004 Total Current Liabilities 684,040 407,870 1,091,910 554,112  Deferred employee benefits (Note 6) 77,250 75,580  FUND BALANCES 2,525,760 4,317 2,530,077 2,599,026			****	01,004	37,070
Current Liabilities       \$182,754       \$182,754       \$230,345         Accounds payable Accrued liabilities       109,110       109,110       90,747         Payroll Property taxes 29,569 Other Accrued liabilities       29,569       29,569       27,822         Other Accrued liabilities Accrued liabilities       41,524       41,524       53,635         Deferred revenues, members' assessments Note Payable Payable Accrued liabilities       9,254       9,254       9,254       9,254       9,500       8,004         Total Current Liabilities       684,040       407,870       1,091,910       554,112         Deferred employee benefits (Note 6)       77,250       75,580         FUND BALANCES       2,525,760       4,317       2,530,077       2,599,026	TOTAL ASSETS .	\$3,287,050	\$412,187	\$3,699,237	\$3,228,718
Accounts payable       \$182,754       \$182,754       \$230,345         Accrued liabilities       109,110       109,110       90,747         Property taxes       29,569       29,569       27,822         Other       41,524       41,524       53,635         Deferred revenues, members' assessments       302,329       407,870       710,199       143,559         Note Payable       9,254       9,254       9,254       -         Rental deposits       9,500       9,500       8,004         Total Current Liabilities       684,040       407,870       1,091,910       554,112         Deferred employee benefits (Note 6)       77,250       75,580         FUND BALANCES       2,525,760       4,317       2,530,077       2,599,026	LIABILITIES AND FUND BALANCES				
Accounts payable       \$182,754       \$182,754       \$230,345         Accrued liabilities       109,110       109,110       90,747         Property taxes       29,569       29,569       27,822         Other       41,524       41,524       53,635         Deferred revenues, members' assessments       302,329       407,870       710,199       143,559         Note Payable       9,254       9,254       9,254       -         Rental deposits       9,500       9,500       8,004         Total Current Liabilities       684,040       407,870       1,091,910       554,112         Deferred employee benefits (Note 6)       77,250       75,580         FUND BALANCES       2,525,760       4,317       2,530,077       2,599,026	Current Liabilities				
Accrued liabilities         Payroll       109,110       109,110       90,747         Property taxes       29,569       29,569       27,822         Other       41,524       41,524       53,635         Deferred revenues, members' assessments       302,329       407,870       710,199       143,559         Note Payable       9,254       9,254       9,254       -         Rental deposits       9,500       9,500       8,004         Total Current Liabilities       684,040       407,870       1,091,910       554,112         Deferred employee benefits (Note 6)       77,250       77,250       75,580         FUND BALANCES       2,525,760       4,317       2,530,077       2,599,026	Accounts payable	\$182 754		\$182 754	\$230,345
Property taxes         29,569         29,569         27,822           Other         41,524         41,524         53,635           Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,254         9,254         9,254         -           Rental deposits         9,500         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026		V. 02,. U.		Ψ10 <b>2</b> ,70 1	<b>4</b> 200,040
Property taxes         29,569         29,569         27,822           Other         41,524         41,524         53,635           Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,254         9,254         9,254         -           Rental deposits         9,500         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026	Pavroll	109 110		109 110	90 747
Other         41,524         41,524         53,635           Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,254         9,254         9,254         -           Rental deposits         9,500         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026		•		,	•
Deferred revenues, members' assessments         302,329         407,870         710,199         143,559           Note Payable         9,254         9,254         -           Rental deposits         9,500         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026	• •	•		1	•
Note Payable Rental deposits         9,254 9,500 9,500 8,004         9,500 9,500 8,004           Total Current Liabilities         684,040 407,870 1,091,910 554,112           Deferred employee benefits (Note 6)         77,250 75,580           FUND BALANCES         2,525,760 4,317 2,530,077 2,599,026	Deferred revenues, members' assessments		407 870		,
Rental deposits         9,500         9,500         8,004           Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026			101,010		7 10,000
Total Current Liabilities         684,040         407,870         1,091,910         554,112           Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026					8 004
Deferred employee benefits (Note 6)         77,250         77,250         75,580           FUND BALANCES         2,525,760         4,317         2,530,077         2,599,026			407.870		
FUND BALANCES 2,525,760 4,317 2,530,077 2,599,026		· · · · · · · · · · · · · · · · · · ·		1,001,010	
<u> </u>	Deferred employee benefits (Note 6)	77,250		77,250	75,580
TOTAL LIABILITIES AND FUND BALANCES \$3,287,050 \$412,187 \$3,699,237 \$3,228,718	FUND BALANCES	2,525,760	4,317	2,530,077	2,599,026
	TOTAL LIABILITIES AND FUND BALANCES	\$3,287,050	\$412,187	\$3,699,237	\$3,228,718

See Accompanying Notes to Consolidated Financial Statements

## PECAN PLANTATION OWNERS' ASSOCIATION, INC. CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES Year Ended October 31,

	Operating	Replacement	Totals	
	Fund	Fund	1998	1997
Revenues:				
Members' assessments	\$1,808,076		\$1,808,076	\$1,786,505
Food and beverage	633,692		633,692	661,921
inn	152,862		152,862	168,057
Golf	504,880		504,880	453,585
Marina & Tennis	423,369		423,369	376,476
Roads and grounds/recreation	258,162		258,162	207,056
Member Services & administration	186,793	4,317	191,110	145,394
Security	75,300	·	75,300	81,316
Contributed assets	13,188_		13,188	28,659
	4,056,322	4,317	4,060,639	3,908,969
Expenses:				
Food and beverage	718,253		718,253	764,550
Inn	148,789		148,789	220,384
Golf	618,932		618,932	581,854
Marina & Tennis	451,524		451,524	365,230
Roads and grounds/recreation	362,063		362,063	205,241
Member Services & administration	1,087,779		1,087,779	1,244,035
Security	354,156		354,156	328,040
	3,741,496		3,741,496	3,709,334
Excess revenues over expenses before				
depreciation	314,826	4,317	319,143	199,635
Landauraiation sympass (Nata 4)				
Less depreciation expense (Note 1) Purchased assets	218,054		218,054	235,362
Contributed assets	170,038		170,038	192,600
Contributed assets	388,092		388,092	427,962
	300,092	-	300,092	427,302
Excess of Revenues Over (Expenses)	(73,266)	4,317	(68,949)	(228,327)
Beginning Fund Balance	2,599,026	-	2,599,026	2,827,353
Ending Fund Balance	\$2,525,760	\$4,317	\$2,530,077	\$2,599,026

See Accompanying Notes to Consolidated Financial Statements

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

	Operating	Replacement	Totals	
	Fund	Fund	1998	1997
Cash Flows From Operating Activites				
Excess (deficiency) of revenues over expenses	(\$70.000)	• • • • •		
Adjustments to reconcile excess (deficiency )of revenues	(\$73,266)	\$4,317	(\$68,949)	(\$228,327)
over expenses to net cash provided by				
operating activities:				
Depreciation	200.000			
Bad debt expense	388,092		388,092	427,962
Gain on sale of equipment and real estate	6,995 (40,643)		6,995	15,177
Increase in accounts receivable, before	(40,642)		(40,642)	(25,333)
bad debt expense	(33.930)		(00.000)	
Decrease in long-term receivable-members	(33,839)		(33,839)	(9,108)
Decrease (Increase) in inventories	(10,454)		(40.45.4)	379
(Increase) decrease in prepaid expenses	(14,708)		(10,454)	(2,188)
(Increase) decrease in real estate held for sale	16,641		(14,708)	1,382
(Decrease) increase in deferred revenues	158,770	407 970	16,641	(3,808)
Increase (decrease) in accounts payable	(47,591)	407,870	566,640	(9,085)
Increase in rental deposits	1,496		(47,591)	54,413
(Decrease) increase in accrued liabilities	7,999		1,496	4,504
Total adjustments		407.070	7,999	35,930
rotal adjustments	432,759	407,870	840,629	490,225
Net cash provided by (used in) operating activities	359,493	412,187	771,680	261,898
Investing Activities				
Capital expenditures	(190 100)	(20.700)	(007.040)	
Proceeds from sale of real estate	(189,120)	(38,790)	(227,910)	(292,858)
Proceeds from sale of assets	17,266		17,266	38,528
. Total trolling of about	500		500_	340
Net cash provided by (used in) investing activities	(171,354)	(38,790)	(210,144)	(253,990)
Financia A state				
Financing Activities				
Designated Capital contributions	(13,188)		(13,188)	(28,659)
Net cash provided by (used in) financing activities	(13,188)		(40.400)	
production of the state of the	(13,100)		(13,188)	(28,659)
Net increase (decrease) in cash and cash equivalents	174,951	373,397	548,348	(20,751)
Cook and each aminutents at the district		•	•	(1:7)
Cash and cash equivalents at beginning of year	199,441	-	199,441	220,192
Cash and cash equivalents at end of year	\$374,392	\$373,397	747,789	\$199,441

See Accompanying Notes to Consolidated Financial Statements

#### 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 1,473 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
	\$ 5,048,148

The Association recorded depreciation expense of \$170,038 and \$192,600 in relation to these assets for years ended October 31, 1998 and 1997 respectively. Accumulated depreciation at October 31, 1998 amounted to \$3,852,148 for these contributed 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.

## NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Fund Accounting**

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

<u>Operating Fund</u> - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future repairs and replacements.

#### Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable at the balance sheet date include fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent.

#### Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

#### 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, 1998 and 1997, 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.

## NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income Taxes - continued

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, 1998 and 1997.

#### Statement of Cash Flows

For purposes of the statement of cash flows, the Association considers cash (including interest bearing deposits) and temporary investments to be cash equivalents.

<u>Supplemental information</u> - Cash paid during the year ended October 31, 1998 for interest was approximately \$1,248 (\$350 in 1997). No payments were made for income taxes in 1998 and 1997.

#### **Temporary Investments**

The Association considers all highly liquid investments with a maturity of six months or less when purchased, to be temporary investments. In the opinion of management, market value of these temporary investments approximates cost.

#### **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.

## NOTE 3 -- SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Association is considered to have concentrated its credit risk with respect to accounts and notes receivable because substantially all of the balances are receivable from individuals located within the same geographic region.

#### NOTE 4 -- FEDERAL INCOME TAXES

The Association has recorded no income tax expense for 1998 and 1997, 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 5 -- EMPLOYEE BENEFITS**

The Association provides certain health care and life insurance benefits for all full-time employees (approximately 55). The Association and participants pay monthly costs and expenses to the plan for administration and claims. These costs were approximately \$97,000 and \$105,000 in 1998 and 1997, 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, 1998 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$77,250.

#### **NOTE 6 -- LITIGATION**

At October 31, 1998, 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 7 -- FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's management 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.