Pecan Plantation Owners' Association, Inc.

Consolidated Financial Statements

October 31, 2008

Pecan Plantation Owners' Association, Inc.
Table of Contents

75 YEARS
SprolesWoodard LLP
Certified Public Accountants

777 Main Street, Suite 3250
Fort Worth, TX 76102-5304
817-332-1328 T
817-332-7671 F
sproles.com

Report of Independent Auditors

Board of Directors
Pecan Plantation Owners' Association, Inc.
Granbury, Texas

We have audited the accompanying consolidated balance sheet of Pecan Plantation Owners' Association, Inc. (the "Association") as of October 31, 2008, and the related consolidated statements of revenues, expenses, and changes in fund balances and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pecan Plantation Owners' Association, Inc. as of October 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the financial statements, the Association's fund balance was restated to properly account for revenues and expenses for the year ended October 31, 2007.

The supplementary information about future repairs and replacements on pages 9 - 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information; however, we did not audit the information and express no opinion on it.

SPROLES WOODARD L.L.P.

Fort Worth, Texas
March 3, 2009

Fort Worth
Midland
Artesia

Member
American Institute of Certified Public Accountants

Member
AGN International
Affiliated Firms Worldwide

Pecan Plantation Owners' Association, Inc.
Consolidated Balance Sheet
October 31, 2008

	Operating Fund	Asset Reserve Fund	Total
ASSETS			
Cash, including interest-bearing deposits	$ 38,547	$ 443,176	$ 481,723
Certificates of deposit	110,000	1,650,000	1,760,000
Assessments receivable, net of allowance for doubtful accounts of $74,776	532,828	88,568	621,396
Other receivables	14,819		14,819
Inventories	234,067		234,067
Prepaid expenses	98,166		98,166
Due from (to) interfund account	159,544	(159,544)	-
Other assets	23,783		23,783
Real estate lots	22,011		22,011
Property and Equipment:			
Land	340,419		340,419
Buildings and improvements	2,999,968		2,999,968
Equipment and other	12,194,869		12,194,869
Construction in progress	71,172		71,172
Contributed property at assigned value, net	1,196,000		1,196,000
	16,802,428	-	16,802,428
Accumulated depreciation	(5,098,380)		(5,098,380)
	11,704,048	-	11,704,048
	$ 12,937,813	$ 2,022,200	$ 14,960,013
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 206,533	$ -	$ 206,533
Assessments billed in advance	284,131	88,568	372,699
Accrued liabilities	215,933		215,933
Note payable	3,256,509		3,256,509
Deposits	21,000		21,000
	3,984,106	88,568	4,072,674
Fund Balances	8,953,707	1,933,632	10,887,339
	$ 12,937,813	$ 2,022,200	$ 14,960,013

See accompanying notes to financial statements.

Pecan Plantation Owners' Association, Inc.
Consolidated Statement of Revenues, Expenses, and Changes in Fund Balances
For the Year Ended October 31, 2008

	Operating Fund	Asset Reserve Fund	Total
Revenues			
Member assessments	$ 2,724,420	$ 1,061,061	$ 3,785,481
Food and beverage	993,110		993,110
Inn	123,321		123,321
Golf	544,866		544,866
Marina	690,492		690,492
Roads, grounds, and recreational activities	298,000		298,000
Member services and administration	474,112	631,194	1,105,306
Security	76,962		76,962
	5,925,283	1,692,255	7,617,538
Expenses			
Food and beverage	1,138,439		1,138,439
Inn	186,883		186,883
Golf	897,756		897,756
Marina	641,161		641,161
Roads, grounds, and recreational activities	671,998		671,998
Member services and administration	1,916,474	201,672	2,118,146
Security	573,494		573,494
	6,026,205	201,672	6,227,877
Excess (deficiency) of revenues over expenses before depreciation expense	(100,922)	1,490,583	1,389,661
Depreciation expense	1,195,065		1,195,065
Excess (Deficiency) of Revenues over Expenses	(1,295,987)	1,490,583	194,596
Fund balances - beginning of year (restated)	8,765,775	1,926,968	10,692,743
Transfer between funds	1,483,919	(1,483,919)	-
Fund Balances - End of Year	$ 8,953,707	$ 1,933,632	$ 10,887,339

See accompanying notes to financial statements.

Pecan Plantation Owners' Association, Inc.
Consolidated Statement of Cash Flows
For the Year Ended October 31, 2008

	Operating Fund	Asset Reserve Fund	Total
Cash Flows from Operating Activities			
Excess (deficiency) of revenues over expenses	$ (1,295,987)	$ 1,490,583	$ 194,596
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities			
Depreciation	1,195,065		1,195,065
Gain on sale of property and equipment	(2,150)		(2,150)
Gain on sale of real estate lots	(41,176)		(41,176)
Change in:			
Assessments receivable	534		534
Other receivables	43,519		43,519
Inventories	(46,044)		(46,044)
Prepaid expenses	17,138		17,138
Other assets	4,027		4,027
Accounts payable	728		728
Assessments billed in advance	(1,832)		(1,832)
Accrued liabilities	(275,411)		(275,411)
Deposits	5,250		5,250
Net cash provided by (used in) operating activities	(396,339)	1,490,583	1,094,244
Cash Flows from Investing Activities			
Purchase of property and equipment	(707,042)		(707,042)
Proceeds from sale of property and equipment	2,150		2,150
Purchase of certificates of deposit	(110,000)	(3,360,000)	(3,470,000)
Proceeds from sale of certificates of deposit	50,000	3,210,000	3,260,000
Proceeds from sale of real estate lots	53,164		53,164
Net cash used in investing activities	(711,728)	(150,000)	(861,728)
Cash Flows from Financing Activities			
Principal payments on note payable	(584,155)		(584,155)
Transfers between funds	1,483,919	(1,483,919)	-
Net cash provided by (used in) financing activities	899,764	(1,483,919)	(584,155)
Net Change in Cash	(208,303)	(143,336)	(351,639)
Cash - beginning of year	246,850	586,512	833,362
Cash - End of Year	$ 38,547	$ 443,176	$ 481,723

See accompanying notes to financial statements.

1. Nature of Organization and Summary of Significant Accounting Policies

Organization and History

Pecan Plantation Owners' Association, Inc. ("PPOA") was incorporated in July 1972. PPOA is responsible for the operation and maintenance of the common property within the development. The development consists of approximately 2,700 residential units located on approximately 4,000 acres in north central Texas. The Association's charter provides for 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 common facilities and to support the operations and other needs of the Association.

Republic Land Company subdivided, developed, maintained, and operated the common property, consisting of streets, clubhouse, golf course, tennis courts, recreation parks, airstrip, and other improvements until June 1, 1972, when such land, improvements, buildings, and equipment were conveyed to PPOA at no cost. An appraisal committee, appointed by the Board of Directors existing at August 1, 1978, valued the acquisition of the property transferred to PPOA. 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
Clubhouse, including furnishings	1,842,663
	4,497,490
Accumulated depreciation	(3,301,490)
	$ 1,196,000

Pecan Plantation Country Club, Inc. ("PPCC") was incorporated in March 1979 in the State of Texas to transact business related to the operations of the PPCC and all recreational facilities. PPCC is a wholly-owned subsidiary of PPOA.

The accounts of the Pecan Plantation Owners' Association, Inc. and the Pecan Plantation Country Club, Inc. (collectively referred to herein as the "Association") have been consolidated in the accompanying financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

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:

- Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.
- Asset Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Use of Estimates

The preparation of these financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and reported revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an initial maturity of three months or less.

Certificates of Deposit

The Association invests in certificates of deposit. The certificates of deposit are carried at cost, which approximates fair value. Interest income is allocated to the operating and reserve and replacement funds in proportion to the interest-bearing deposits and certificates of deposit of each fund.

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. Certain special assessments are used to repay the note payable. Assessments receivable at the balance sheet date represent fees due from lot owners. The Association's policy is to retain legal counsel and place liens on the properties whose assessments are 120 days delinquent. Management determines the allowance for doubtful accounts based on historical experience, management's review of individual accounts, current economic conditions, and other pertinent facts. Member payments received in advance for assessments are deferred to the appropriate assessment period. Member assessments are billed one month in advance.

Inventories

Inventories consist primarily of golf merchandise, food and beverages, and gas and are stated at the lower of cost or market value using the first-in, first-out method.

Property and Equipment

Property and equipment purchased by the Association is recorded at cost and property contributed to the Association by the developer or others is recorded at estimated fair value at date of contribution. Depreciation is provided over the estimated useful lives of 5 to 50 years on a straight-line basis.

Income Taxes

PPOA and PPCC file separate federal income tax returns. For the year ended October 31, 2008, PPOA filed form 1120-H as a homeowners' association and PPCC filed form 1120 as a regular corporation. Deferred income taxes are recorded, when applicable, for differences in timing of the recognition of revenue and expenses for financial and tax purposes when appropriate.

PPOA and PPCC have elected to defer the provisions of FIN 48, Accounting for Income Taxes, under the provisions of FSP FIN 48-3. PPOA and PPCC use a FAS 5, Loss Contingencies, approach for evaluating uncertain tax positions.

2. Future Major Repairs and Replacements

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 to finance future major repairs and replacements, the Association plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. During 2008, member assessments of $272,096 and initiation fees of $555,332 were assessed for future repairs and replacements. Accumulated funds, which aggregate $1,933,632 at October 31, 2008, are held in separate accounts and are not available for operating purposes. These funds are being accumulated based on estimated future costs; however, actual expenditures may vary materially from the estimated costs.

During the year ended October 31, 2007, the Association's Board of Directors engaged an independent consultant to conduct a study to estimate the remaining useful lives and replacement costs of the common property components. During 2008, management revised these estimates based on an internal analysis. Funding requirements consider an annual inflation rate of 4% and an annual growth in memberships and continuation of the level of real estate resale activity for the Association anticipated by management.

3. Note Payable

The Association has a note payable to a commercial bank in the original amount of $4,500,000. The note payable is secured by certain bridge and road assessments. Interest is accrued at a rate of 4.75% and is payable monthly. All outstanding debt and unpaid interest are due October 31, 2013. At October 31, 2008, there was $3,256,509 outstanding under the note payable. Interest expense paid on the loan amounted to $201,296 during 2008.

Monthly payments are determined by the amount of related assessments received each month. Estimated payments based on future assessments are as follows:

Years ending October 31:		
2009	$	707,507
2010		755,369
2011		805,505
2012		858,914
2013		129,214
	$	3,256,509

4. Defined Contribution Plan

The Association has a defined contribution plan covering substantially all categories of its employees that have attained age 21 and completion of one year of employment. Employees can defer a portion of their compensation up to limits established by the IRS. Employer matching contributions amounted to approximately $39,500 during 2008.

5. Income Taxes

PPOA has recorded no income tax expense for the year ended October 31, 2008. PPCC has incurred net operating losses since it began filing separate income tax returns in 1994. The net operating loss carryforward for PPCC amounted to approximately $1,949,600 at October 31, 2008, and begins to expire in 2016. In addition to the net operating losses, other temporary differences between the tax and book basis of assets and liabilities related to the allowance for uncollectible accounts and difference in depreciation methods. Management believes that the resulting deferred tax assets will not be utilized prior to expiration; therefore, a valuation allowance equal to the total net deferred tax assets has been provided.

6. Commitments and Contingencies

The Association is involved in several lawsuits occurring in the normal course of business. Management intends to defend these actions vigorously and believes the ultimate resolution of these matters will not have a material effect on the consolidated financial position or results of operations for the Association.

The Association maintains purchase agreements with original terms ranging from two to twenty years whereby they have agreed to purchase electricity at a set price per kilowatt-hour and water for irrigation at a rate that is subject to change annually. The Association would be responsible for a cancellation fee in the event of early termination. Costs incurred under these agreements amounted to approximately $283,000 for the year ended October 31, 2008.

7. Credit Risk and Concentrations

Financial instruments which potentially subject the Association to concentrations of credit risk are cash and cash equivalents, certificates of deposit, and accounts receivable. During 2008 and at year-end, the Association maintained balances in deposit accounts that exceeded the amount insured by the U.S. Federal Deposit Insurance Corporation (FDIC). Management believes the risk of incurring material losses related to this credit risk is remote. The majority of the Association's accounts receivable are due from members in the local community.

8. Restatement of Fund Balance

Errors resulting from improper recognition of certain revenues and expenses as previously reported were discovered during the current year. The prior year effect of these errors was corrected during the current year by restating beginning fund balance. This restatement resulted in an increase in fund balance as originally reported at October 31, 2007, of $130,785. The deficiency of revenues over expenses during the year ended October 31, 2007, would have been $130,785 less than originally reported if these revenues and expenses had been properly recorded.

Pecan Plantation Owners' Association, Inc.
Supplementary Information on Future Major Repairs and Replacements (Unaudited)
For the Year Ended October 31, 2008

During the year ended October 31, 2007, the Association's Board of Directors engaged an independent consultant to conduct a study to estimate the remaining useful lives, and major repairs and replacement costs of the common property components. During 2008, management revised these estimates. Funding requirements consider an annual inflation rate of 4%. The following information is based on the independent study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Major Repairs and Replacement Costs
Clubhouse improvements	1 - 12	$ 2,065,405
Golf course improvements	1 - 20	1,838,352
Recreational facilities	1 - 15	354,179
Streets, grounds, and security	1 - 18	1,976,689

At October 31, 2008, $1,933,632 was included in fund balance for major repairs and replacement of the above components.

The estimates of cost are based on the one time major repair and replacement of the current improvements to the common property. These amounts will change in future years based on major repairs and replacements completed, changes in costs, and condition of the common property components.

Pecan Plantation Owners' Association, Inc.
Supplementary Information on Future Major Repairs and Replacements (Unaudited)
For the Year Ended October 31, 2008

The "Net Annual Contribution" is based on an annual growth in memberships and continuation of the level of real estate resale activity for the Association anticipated by management. The "Expenditures" column does not reflect new or expanded infrastructure or amenities that will be necessary to accommodate the projected growth in new members over the next twenty years.

The following table illustrates the Board of Directors' plan for funding the major repairs and replacement of common property.

Year	Reserve Current	Estimated Interest	Net Annual Contribution	Accumulated Total Reserve	Less Expenditures	Remaining Balance
Actual	$ 1,926,968	$ 75,734	$ 825,756	$ 2,828,458	$ 894,826	$ 1,933,632
2008-2009	1,933,632	75,000	753,029	2,761,661	686,700	2,074,961
2009-2010	2,074,961	80,000	712,552	2,867,513	657,907	2,209,606
2010-2011	2,209,606	85,000	730,366	3,024,972	382,020	2,642,952
2011-2012	2,642,952	90,000	748,625	3,481,577	326,226	3,155,351
2012-2013	3,155,351	95,000	771,084	4,021,435	577,553	3,443,882
2013-2014	3,443,882	98,800	798,072	4,340,754	169,611	4,171,143
2014-2015	4,171,143	102,752	822,014	5,095,909	374,102	4,721,807
2015-2016	4,721,807	106,862	850,784	5,679,453	345,500	5,333,953
2016-2017	5,333,953	111,137	880,562	6,325,652	525,232	5,800,420
2017-2018	5,800,420	115,582	911,381	6,827,383	1,187,920	5,639,463
2018-2019	5,639,463	120,205	943,280	6,702,948	184,146	6,518,802
2019-2020	6,518,802	125,014	985,727	7,629,543	256,192	7,373,351
2020-2021	7,373,351	130,014	1,030,085	8,533,450	215,771	8,317,679
2021-2022	8,317,679	135,215	1,076,439	9,529,333	713,759	8,815,574
2022-2023	8,815,574	140,623	1,124,879	10,081,076	795,638	9,285,438
2023-2024	9,285,438	146,248	1,175,498	10,607,184	210,352	10,396,832
2024-2025	10,396,832	152,098	1,228,396	11,777,326	237,921	11,539,405
2025-2026	11,539,405	158,182	1,283,673	12,981,260	366,515	12,614,745
2026-2027	12,614,745	164,509	1,347,857	14,127,111	629,020	13,498,091
2027-2028	13,498,091	171,090	1,415,250	15,084,431	747,812	14,336,619