

**Pecan Plantation
Owners Association, Inc.**

Consolidated Financial Statements

October 31, 2007

Pecan Plantation Owners' Association, Inc.

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Blake M. Briscoe

Certified Public Accountant

Member:

American Institute of Certified Public Accountants

Independent Auditor's Report

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

I have audited the accompanying consolidated balance sheet of Pecan Plantation Owners' Association, Inc. (the Association) as of October 31, 2007, 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. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association, as of October 31, 2007, 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.



December 11, 2007

PECAN PLANTATION OWNERS' ASSOCIATION, INC.

Consolidated Balance Sheet

October 31, 2007

	<u>Operating Fund</u>	<u>Reserve and Replacement Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash, including interest bearing deposits	\$ 243,821	\$ 321,916	\$ 565,736
Cash - bridge and road		177	177
Certificate of deposit	53,029	1,764,419	1,817,448
Accounts receivable members, less allowance for doubtful accounts \$3,487	839,811	-	839,811
Inventories	188,023	-	188,023
Prepaid expenses	115,304	-	115,304
Other assets	27,808	-	27,808
Total current assets	<u>1,467,795</u>	<u>2,086,511</u>	<u>3,554,308</u>
PROPERTY AND EQUIPMENT			
Land	340,419	-	340,419
Building and improvements	2,962,969	-	2,962,969
Equipment and other	12,263,838	-	12,263,838
Construction in progress	4,923	-	4,923
Contributed property at assigned value, net	1,196,000	-	1,196,000
	<u>16,768,149</u>	<u>-</u>	<u>16,768,149</u>
Less: accumulated depreciation	5,063,109	-	5,063,109
Net property and equipment	<u>11,705,040</u>	<u>-</u>	<u>11,705,040</u>
OTHER ASSETS			
Real estate lots	34,000	-	34,000
Total other assets	<u>34,000</u>	<u>-</u>	<u>34,000</u>
TOTAL ASSETS	<u>\$ 13,206,835</u>	<u>\$ 2,086,511</u>	<u>\$ 15,293,346</u>
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES			
Line of credit	\$ 3,840,664	\$ -	\$ 3,840,664
Accounts payable	205,805	-	205,805
Accrued expenses	360,374	-	360,374
Rental deposits	15,750	-	15,750
Deferred revenues, member assessments	308,795	-	308,795
Total current liabilities	<u>4,731,388</u>	<u>-</u>	<u>4,731,388</u>
FUND BALANCES	<u>8,475,446</u>	<u>2,086,511</u>	<u>10,561,958</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,206,835</u>	<u>\$ 2,086,511</u>	<u>\$ 15,293,346</u>

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
Consolidated Statement of Revenues, Expenses and Fund Balances
For the year ended October 31, 2007

	Operating Fund	Reserve and Replacement Fund	Total
REVENUES			
Members Assessments	\$ 2,672,390	\$ 1,040,154	\$ 3,712,544
Food and Beverage	976,248	-	976,248
Inn	149,804	-	149,804
Golf	537,857	-	537,857
Marina	596,965	-	596,965
Roads, Grounds, and Recreational Activities	282,559	-	282,559
Member Services and Administration	460,298	586,395	1,046,693
Security	94,112	-	94,112
Total Revenues	5,770,233	1,626,549	7,396,782
EXPENSES			
Food and Beverage	1,131,699	-	1,131,699
Inn	184,064	-	184,064
Golf	850,372	-	850,372
Marina	546,945	-	546,945
Roads, Grounds, and Recreational Activities	569,359	-	569,359
Member Services and Administration	1,867,324	272,791	2,140,115
Security	654,597	-	654,597
Total Expenses	5,804,360	272,791	6,077,151
Excess (deficiency) of revenues over expenses before depreciation	(34,127)	1,353,758	1,319,631
Depreciation Expense	1,402,254	-	1,402,254
Excess (deficiency) of revenues over expenses	(1,436,380)	1,353,758	(82,622)
FUND BALANCES, BEGINNING	6,873,534	2,437,285	9,310,819
Transfers between funds	1,704,532	(1,704,532)	-
Donated Assets	1,333,761	-	1,333,761
FUND BALANCES, ENDING	\$ 8,475,446	\$ 2,086,511	\$ 10,561,958

PECAN PLANTATION OWNERS' ASSOCIATION, INC.

Consolidated Statement of Cash Flows

For the year ended October 31, 2007

	<u>Operating Fund</u>	<u>Reserve and Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ (1,436,380)	\$ 1,353,758	\$ (82,622)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities			
Depreciation	1,402,254	-	1,402,254
Gain on sale of equipment and real estate	(14,054)		(14,054)
Changes in operating assets and liabilities			
Accounts receivable	(92,131)		(92,131)
Accrued interest receivable	-	25,220	25,220
Inventories	(33,286)		(33,286)
Other assets	(2,051)		(2,051)
Prepaid expenses	(31,298)	-	(31,298)
Deferred revenues	(5,421)	-	(5,421)
Accounts payable	(448,522)		(448,522)
Accrued expenses	153,895		153,895
	<u>(506,994)</u>	<u>1,378,978</u>	<u>871,984</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital Expenditures	(843,294)	-	(843,294)
Purchase of certificates of deposit	(53,029)	(514,419)	(567,448)
Proceeds from sale of real estate lots	28,586	-	28,586
	<u>(867,737)</u>	<u>(514,419)</u>	<u>(1,382,156)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Line of credit payments	(492,392)	-	(492,392)
Loan proceeds	221,649	-	221,649
Transfer from reserve and replacement fund	1,704,532	(1,704,532)	-
	<u>1,433,789</u>	<u>(1,704,532)</u>	<u>(270,743)</u>
Change in cash and cash equivalents	59,058	(839,973)	(780,915)
CASH AND CASH EQUIVALENTS, beginning of year	<u>184,763</u>	<u>1,162,065</u>	<u>1,346,828</u>
CASH AND CASH EQUIVALENTS, end of year	<u>243,821</u>	<u>322,092</u>	<u>565,913</u>
NON-CASH INVESTING AND FINANCING ACTIVITY			
Donated capital assets	<u>\$ 1,333,761</u>	<u>\$ -</u>	<u>\$ 1,333,761</u>

The notes to consolidated financial statements are an integral part of this statement.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.

Notes to the Consolidated Financial Statements

October 31, 2007

NOTE 1: NATURE OF OPERATIONS

Pecan Plantation Owners' Association, Inc. (the Association) was incorporated in July 1972. The Association is responsible for the operation and maintenance of the common property within the development, which consists of approximately 2,700 residential units located 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 the common facilities. The Association is dependent upon its members to support the operations and other needs of the Association.

Effective March 1, 1979, Pecan Plantation Country Club, Inc. (the Country Club) was formed to transact business related to the operations of the Country Club and all recreational facilities. The Country Club is a wholly-owned subsidiary 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 the Association 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 the Association. 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
		<u>4,497,490</u>
Less: accumulated depreciation		<u>(3,301,490)</u>
	\$	<u>1,196,000</u>

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 the Consolidated Financial Statements

October 31, 2007

(b) 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 the fund accounting method. Financial resources are classified for accounting and reporting purposes into the following funds established according to their nature and purpose.

- a. **Operating Fund** - This fund is used to account for financial resources available for the general operations of the Association.
- b. **Reserve and Replacement Fund** - This fund is used to accumulate financial resources designated for future repairs and replacements.

(c) 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. Accounts deemed uncollectible are charged to the allowance. The allowance for doubtful accounts is based on past experience, management's review of individual accounts, current economic conditions and other pertinent facts.

(d) Interest Income

Interest income is fully allocated to the reserve and replacement fund except for the interest earned on operating fund money market accounts which totaled approximately \$2,000 for the year ended October 31, 2007.

(e) Land, Buildings and Equipment

Except as explained in Note 1 regarding the contribution of assets upon formation of the Association, property and equipment is recorded at cost or fair value of donated assets. Depreciation is computed principally on a straight-line basis over the estimated useful lives of the related assets as follows:

Equipment and other	1-50 years
Buildings and improvements	15 years

(f) Inventories

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

PECAN PLANTATION OWNERS' ASSOCIATION, INC.

Notes to the Consolidated Financial Statements

October 31, 2007

(g) Income Taxes

The Association and the Country Club file separate federal income tax returns. Homeowners' associations may be taxed either as homeowners' associations or as regular corporations.

For the year ended October 31, 2006, the Association filed as a regular corporation and anticipates filing as a regular corporation for the year ended October 31, 2007. A regular corporation tax return has deferred income taxes, when applicable, for differences in timing of the recognition of income and expense for financial and tax purposes when appropriate. When the Association files as a regular corporation, assessments are capitalized in the year recorded and creates a permanent book to tax difference. The Association has a net operating loss carryforward for the year ending October 31, 2007.

The Association has filed under the election for Association's in the past and maintains the right to file as an Association in the future. If this election is chosen, 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 a net operating loss carryforward for the year ended October 31, 2007.

(h) Statement of Cash Flows

For purposes of the statement of cash flows, the Association considers cash (including interest bearing deposits) and temporary investments with maturities of three months or less when purchased to be cash equivalents.

(i) Franchise Fee Income

The Association has contracts with two utility companies which allow the Association to retain a percentage of billings. Included in member services and administration revenue is franchise fee income of \$91,823 for the year ended October 31, 2007.

(j) Concentration of Credit Risk

Financial instruments that potentially subject the Association to significant concentrations of credit risk consist principally of cash and accounts receivable.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.

Notes to the Consolidated Financial Statements

October 31, 2007

The Association maintains cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Substantially all of the Association's accounts receivable is due from individuals located within the same geographic region.

(k) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: COMMITMENTS AND CONTINGENT LIABILITY

The Association maintains non-cancelable lease agreements for certain office and maintenance equipment under which the Association incurred approximately \$36,779 in rental expense during the year ended October 31, 2007.

Future minimum payments required under the agreement are as follows for the respective years ending October 31:

2008	\$	7,664
2009		7,664
2010		7,664
2011		7,664
	\$	<u>30,656</u>

The Association maintains non-cancelable purchase agreements with original terms ranging from five to twenty years whereby they have agreed to purchase utilities and services at a set minimum price. The Association incurred costs under these agreements totaling approximately \$23,000 for the year ended October 31, 2007.

Future minimum payments required under the agreements are as follows for the respective years ending October 31:

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
Notes to the Consolidated Financial Statements
October 31, 2007

2008	\$	22,672
2009		14,950
2010		14,950
2011		14,950
2012		14,950
Thereafter		134,550
	<u>\$</u>	<u>217,022</u>

NOTE 4: LINE OF CREDIT

Line of Credit at October 31, 2007 consists of the following:

Line of credit payable to a bank; interest accrued at 6.9%, principal and unpaid interest due on final maturity in October 2013 or on demand; secured by certain bridge assessments and certain road assessments with payments established on the 1st day of each month beginning October 1, 2005. The unused portion of the line of credit at October 31, 2007 is \$659,336.

\$ 3,840,664

Interest expense paid for the year ended October 31, 2007 was \$272,471.

NOTE 5: INTERFUND LOAN

The Association used \$46,516 from the Reserve and Replacement Fund to fund a bridge and roads project that is held in the Operating Fund. The Association will repay this amount from the Operating Fund as funds are available at 3% interest rate. An interfund payable and receivable were set up to account for the interfund loan as well as an interest income and an interest expense account. At October 31, 2007 the balance is \$46,516.

NOTE 6: EMPLOYEE BENEFITS

The Association provides certain health care benefits for all full-time employees (approximately 80). The Association and participants pay monthly costs and expenses to the plan for administration and premiums. These costs were approximately \$267,000 during the year ended October 31, 2007 and are included in the various departmental expenses.

The Association participates in a non-qualified deferred compensation plan, which provides benefits to certain employees. As of October 31, 2007 (most recent measurement date) the value of the plan's assets, which are subject to the general creditors of the Association, was approximately \$28,000. The Association did not make contributions to this plan in 2007. The Association also maintains a 401(k) plan for its employees. During 2007, the Association contributed \$22,075 to the plan.

PECAN PLANTATION OWNERS' ASSOCIATION, INC.

Notes to the Consolidated Financial Statements

October 31, 2007

NOTE 7: FEDERAL INCOME TAXES

The Association has recorded no income tax expense for the year ended October 31, 2007. 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 since management does not believe that the net operating losses will be used before they expire. The net operating loss balances for the Association and Country Club were approximately \$1,650,000 and \$1,750,000 respectively, at October 31, 2007 and begin to expire in 2022 and 2008, respectively. In addition to the net operating losses, other temporary differences between the tax and book basis of assets and liabilities relate to the allowance for uncollectible member accounts and difference in depreciation methods. As it is not believed that the deferred tax assets will be utilized prior to expiration, a valuation allowance equal to the total net deferred tax asset has been provided.

NOTE 8: 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 estimated future major repairs and replacements, the Association plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. Accumulated funds, which aggregate \$2,086,511 at October 31, 2007, are held in separate accounts and the dedicated portion is not available for operating purposes. These funds are being accumulated based on estimated future costs. Actual expenditures however may vary from those estimated and the variations may be material.

NOTE 9: COMMITMENTS AND CONTINGENCIES

At October 31, 2007, 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.

Blake M. Briscoe

Certified Public Accountant

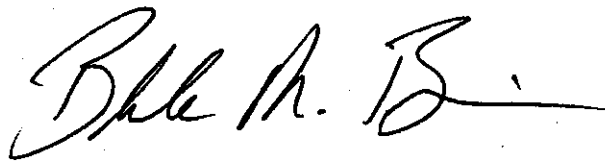
Member:

American Institute of Certified Public Accountants

**Independent Auditor's Report
on the Supplementary Data**

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

The supplementary information on future major repairs and replacements on pages 12 and 13 is not a required part of the basic consolidated financial statements of Pecan Plantation Owners' Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the future major repairs and replacements contained in the supplementary information. However, I did not audit the supplementary information on pages 12 and 13 and express no opinion on it.



December 11, 2007

PECAN PLANTATION OWNERS' ASSOCIATION, INC.

Replacement Reserve Fund

October 31, 2007

(Unaudited)

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. Funding requirements consider an annual inflation rate of 4%. 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 information is based on the independent study and presents significant information about the components of common property:

<u>Components</u>	<u>Estimated Remaining Useful Lives (years)</u>	<u>Estimated Current Replacement Costs</u>
Clubhouse improvements	1 - 12	1,857,408
Golf Course improvements	1 - 20	1,736,229
Recreational facilities	1 - 15	289,244
Streets, grounds and security	1 - 18	1,982,400

At October 31, 2007, \$2,086,511 was included in fund balance for replacement of the above components.

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

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
Replacement Reserve Fund
October 31, 2007
(Unaudited)

The following table illustrates the board of directors' plan for funding the replacement of common property.

Year	Reserve Current	Estimated Interest	Net Annual Contribution	Accumulated Total Reserve	Less Expenditures	Remaining Balance
Actual	2,437,285	96,795	1,529,754	4,063,834	1,977,323	2,086,511
2007-08	2,086,511	100,000	840,576	3,027,087	941,304	2,085,783
2008-09	2,085,783	100,000	897,472	3,083,255	514,734	2,568,521
2009-10	2,568,521	100,000	956,120	3,624,641	1,237,065	2,387,576
2010-11	2,387,576	100,000	1,014,272	3,501,848	554,104	2,947,744
2011-12	2,947,744	100,000	1,056,160	4,103,904	579,203	3,524,701
2012-13	3,524,701	100,000	1,098,024	4,722,725	422,110	4,300,615
2013-14	4,300,615	100,000	1,142,880	5,543,495	361,750	5,181,745
2014-15	5,181,745	100,000	1,187,800	6,469,545	663,277	5,806,268
2015-16	5,806,268	100,000	1,234,864	7,141,132	346,007	6,795,125
2016-17	6,795,125	100,000	1,284,080	8,179,205	910,080	7,269,125
2017-18	7,269,125	100,000	1,335,920	8,705,045	857,045	7,848,000
2018-19	7,848,000	100,000	1,388,192	9,336,192	380,165	8,956,027
2019-20	8,956,027	100,000	1,443,792	10,499,819	597,178	9,902,641
2020-21	9,902,641	100,000	1,502,080	11,504,721	531,885	10,972,836
2021-22	10,972,836	100,000	1,562,920	12,635,756	859,704	11,776,052
2022-23	11,776,052	100,000	1,624,328	13,500,380	1,608,609	11,891,771
2023-24	11,891,771	100,000	1,689,040	13,680,811	943,466	12,737,345
2024-25	12,737,345	100,000	1,758,080	14,595,425	856,211	13,739,214
2025-26	13,739,214	100,000	1,826,544	15,665,758	1,145,388	14,520,370
2026-27	14,520,370	100,000	1,832,304	16,452,674	1,247,397	15,205,277