Cheatham
&Lansford

Certified Public Accountants
Granbury - Stephenville

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Pecan Plantation Owners Association, Inc. (the Association) as of October 31, 2002 and 2001, and the related consolidated statements of revenues, expenses, and changes in fund balance 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.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

We were unable to obtain sufficient audit evidence to support the carrying amount of inventory ($141,946), accounts payable ($129,605) and other accrued liabilities ($51,313) and the operating expense accounts that might be affected (which total $4,735,676), nor were we able to satisfy ourselves by other auditing procedures.

In our opinion, except for the effects on the 2002 financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the accounts described in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of October 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Granbury, Texas
January 7, 2003

Cheatham + Lansford

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PECAN PLANTATION OWNERS' ASSOCIATION, INC.
CONSOLIDATED BALANCE SHEETS
October 31, 2002 and 2001

	Operating Fund	Replacement Fund	Total 2002	Total 2001
ASSETS				
Cash, including interest-bearing deposits	$125,995	$444,543	$570,539	$293,329
Temporary investments	49,249	104,825	$154,074	152,031
Accounts receivable:				
Members, less allowance for doubtful accounts of $27,684 in 2002 and $37,260 in 2001	395,782	-	$395,782	447,389
Other	17,430	-	$17,430	30,535
Inventories	141,946	-	$141,946	138,459
Prepaid expenses:				
Insurance	36,812	-	$36,812	59,714
Other	28,878	-	$28,878	21,459
Other Assets	53,447	-	$53,447	70,301
Property, Plant and Equipment				
Purchased at cost:				
Land	82,849	-	$82,849	82,849
Buildings and improvements	1,185,497	358,036	$1,543,533	1,622,768
Equipment and other	1,436,336	3,150,169	$4,586,506	4,224,789
Construction in progress	30,237	297,169	$327,405	2,639
Contributed, at assigned value	1,196,000	-	$1,196,000	1,196,000
Total property, plant & equipment	3,930,919	3,805,374	7,736,293	7,129,045
Less accumulated depreciation	(2,096,699)	(211,366)	($2,308,066)	(2,070,733)
	1,834,219	3,594,008	5,428,227	5,058,313
Real estate held for sale	106,263	-	$106,263	95,988
TOTAL ASSETS	$2,790,022	$4,143,375	$6,933,397	$6,367,518
LIABILITIES AND FUND BALANCES				
Accounts payable	$129,605	-	$129,605	$133,118
Accrued liabilites:				
Payroll	64,806	-	$64,806	19,120
Other	48,353	2,960	$51,313	123,038
Deferred revenue-members assessments	297,430	864,417	$1,161,847	1,313,750
Note payable		467,698	$467,698	527,302
Rental deposits	15,163	-	$15,163	11,000
Deferred employee benefits	53,447	-	$53,447	70,301
FUND BALANCES	2,181,216	2,808,301	$4,989,517	4,169,889
TOTAL LIABILITIES AND FUND BALANCES	$2,790,022	$4,143,376	$6,933,397	$6,367,518

See Accompanying Notes to Consolidated Financial Statements

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
for the years ended October 31, 2002 and 2001

	Operating Fund	Replacement Fund	Totals 2002	Totals 2001
Revenues:				
Members' Assessments	$2,094,413	$749,765	$2,844,178	$2,862,842
Food and beverage	806,105		806,105	833,009
Inn & reception	158,835		158,835	122,448
Golf & tennis	498,736		498,736	470,973
Marina	499,553	8,964	508,517	527,520
Roads, grounds and recreation	354,874		354,874	269,326
Member Services & administration	287,439	496,911	784,350	758,659
Security	690	29,106	29,796	34,085
	4,700,645	1,284,746	5,985,391	5,878,862
Expenses:				
Food and beverage	922,614		922,614	916,056
Inn & reception	170,795		170,795	161,029
Golf & tennis	810,411		810,411	706,575
Marina	482,972		482,972	491,930
Roads, grounds and recreation	663,752		663,752	665,074
Member Services & administration	1,113,867	35,940	1,149,807	1,156,602
Security	535,325		535,325	468,961
	4,699,736	35,940	4,735,676	4,566,227
Excess revenues over expenses before depreciation	909	1,248,806	1,249,715	1,312,635
Less depreciation expense	308,947	121,140	430,087	343,026
Excess (deficiency) of revenues over expenses	(308,038)	1,127,666	819,628	969,609
Beginning Fund Balances - before restatement	2,489,254	1,680,635	4,169,889	3,061,274
Prior period adjustment				139,006
Beginning Fund Balances - as restated				3,200,280
Ending Fund Balances	$2,181,216	$2,808,301	$4,989,517	$4,169,889

See Accompanying Notes to Consolidated Financial Statements

PECAN PLANTATION OWNERS' ASSOCIATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended October 31, 2002 and 2001

	Operating Fund	Replacement Fund	Totals 2002	Totals 2001
Cash Flows Form Operating Activities				
Exess (deficiency) of revenues over expenses	($308,038)	$1,127,666	$819,628	$969,609
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Depreciation	308,947	121,140	430,087	343,026
Bad debt expense	3,750	-	3,750	5,463
(Increase) decrease in accounts receivable, before bad debt expense	60,963	-	60,963	(70,726)
(Increase) decrease in inventories	(3,488)	-	(3,488)	1,118
(Increase) decrease in prepaid expenses	15,483	-	15,483	(27,201)
(Increase) decrease in real estate held for sale	(10,275)	-	(10,275)	(12,271)
Increase (decrease) in deferred revenues	10,882	(162,785)	(151,903)	(163,448)
Increase (decrease) in accounts payable	(96,337)	-	(96,337)	9,697
Increase (decrease) in rental deposits	4,163	-	4,163	2,000
Increase (decrease) in accrued liabilities	28,045	(54,084)	(26,039)	(21,067)
Total adjustments	322,134	(95,728)	226,406	66,591
Net cash provided by (used in) operating activites	14,097	1,031,937	1,046,034	1,036,200
Investing Activities				
Capital expenditures	-	(760,095)	(760,095)	(1,349,604)
Developer contribution	-	-	-	40,000
Proceeds from sale of real estate and other assets	5,315	47,603	52,917	82,368
Net cash provided by (used in) investing activities	5,315	(712,492)	(707,178)	(1,227,236)
Financing activities				
Loan Payments	-	(59,604)	(59,604)	(113,599)
Net cash provided by (used in) financing activities	-	(59,604)	(59,604)	(113,599)
Net increase (decrease) in cash and cash equivalents	19,412	259,841	279,252	(304,635)
Cash and cash equivalents at beginning of year	155,833	289,527	445,360	749,995
Cash and cash equivalents at end of year	$175,245	$549,367	$724,612	$445,360
Cash from Balance Sheets:				
Cash, including interest-bearing deposits	$125,995	$444,543	$570,539	$293,329
Temporary investments	49,249	104,825	154,074	152,031
	$175,244	$549,368	$724,612	$445,360
Supplemental information:				
Interest paid	$0	$89,799	$89,799	$35,846

See Accompanying Notes to Consolidated Financial Statements

NOTE 1 – HISTORY OF ASSOCIATION

Pecan Plantation Owners Association, Inc. (the "Association"), a gated community located in southern Hood County, Texas 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 2,000 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, clubhouse, golf course, tennis courts, recreation parks, airstrip and other improvements. On August 1, 1978, Republic Land Company transferred the common facilities to the Association. 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
	$ 4,497,490

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.

During fiscal year 2001, $3,301,490 of the fully depreciated assets contributed by Republic Land Company were disposed of and the Association removed them from the books.

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 inter-company accounts and transactions have been eliminated.

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:

Operating Fund – 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 dated 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 that approximate the property's estimated useful life. Different depreciation methods are used for tax purposes.

Inventories

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2002 and 2001, 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, 2002 and 2001.

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.

Temporary Investments

The Association considers all highly liquid investments with maturities of three 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.

The Association has interest bearing deposits in various commercial banks. At October 31, 2002, the Association's deposits exceeded federal depository insurance coverage by approximately $265,702.

NOTE 4 – NOTE PAYABLE

The financial statements include a fixed rate 7.00% note payable of $467,697 & $527,302 as of October 31, 2002 and 2001, respectively. The proceeds of this note were used for the construction of the bridge located at the front gate of the development. The note is secured by the assignment of a special bridge assessment. The note does not call for scheduled payments but requires all collected bridge assessments be applied against the note monthly until paid in full. The note has a maturity date of March 3, 2010 at which time any unpaid principal and interest is due and payable.

NOTE 5 – FEDERAL INCOME TAXES

The Association has recorded no income tax expense for 2002 and 2001.

The Country Club has incurred net operating loses 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.

NOTE 6 – EMPLOYEE BENEFITS

The Association provides certain health care benefits for all full-time employees (approximately 50). The Association and participants pay monthly costs and expenses to the plan for administration and claims. These costs were approximately $156,000 and $130,000 in 2002 and 2001, 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. As of October 31, 2002 (most recent measurement date), the value of the plan's assets, which are subject to the general creditors of the Association, was approximately $54,000. The Association also maintains a non-matching 401(k) plan for its employees.

NOTE 7 – LITIGATION

At October 31, 2002, 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 conducted a study in December 1999 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. Accumulated funds, which aggregate approximately $410,000 and $161,000 at October 31, 2002 and 2001, respectively, are held in separate accounts and are not available for operating purposes.

NOTE 9 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment has been made to the books for the year ended October 31, 2001. The adjustment was necessary to record expenditures in the amount of $114,887 in the Operating fund and an overstatement of expenditures in the amount of $1,268 in the Reserve fund. This created a decrease in cash and a decrease in excess revenues over expenses in the Operating fund and an increase in cash and an increase in excess revenues over expenses in the Reserve fund.

In addition, a prior period adjustment has been made as an increase to the beginning fund balance as of November 1, 2000 in the amount of $139, 006. This adjusts the financial statements after a physical inventory of the property, plant and equipment of the Association, a review of the estimated useful lives placed on the respective assets and a subsequent recalculation of depreciation.

These adjustments created no change in tax liability.