
**LAKE HOLIDAY
COUNTRY CLUB, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

**for the years ended December 31, 2005
and 2004 (Restated)**

KOSITZKA
AND COMPANY
WICKS

**A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS**

BOARD OF DIRECTORS
Lake Holiday Country Club, Inc.

Chris Allison, President
Wayne Poyer, Vice President
Chris Anderson, Secretary
Chuck James, Treasurer

MEMBERS AT LARGE:

Jim Masland
Dave Buermeyer
Dolores Smith
Pat Shields
Michelle Patterson
Noel O'Brien
Margie Hoffman

OFFICERS AND DIRECTORS OF
Lake Holiday Estates Utility Company
(A Wholly Owned Subsidiary of Lake Holiday Country Club,
Inc.)

Joe Marcus, President
Mike Perry, Secretary
Ken Murphy, Treasurer

MEMBERS AT LARGE:

Matt Moore
Tom Newman
Denise Lee

LAKE HOLIDAY COUNTRY CLUB, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004 (Restated)**

C O N T E N T S

**Page
number**

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Balance Sheets	1
Statements of Income	2 - 3
Statements of Members' Equity	4 - 5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 18

ADDITIONAL INFORMATION 19

Independent auditor's report on additional information	20
Supplemental information	21 - 23
Consolidating Reports	
Balance Sheet	24 - 25
Statement of Income	26 - 27
Statement of Cash Flows	28

KOSITZKA AND COMPANY WICKS

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Board of Directors
Lake Holiday Country Club, Inc.
Cross Junction, Virginia

We have audited the accompanying consolidated balance sheet of **Lake Holiday Country Club, Inc.** as of December 31, 2005, and the related statements of income, members' equity, and cash flows for the year then ended. We also audited the adjustments described in Note 13 that were applied to restate the 2003 and 2004 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. These financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of **Lake Holiday Country Club, Inc.** as of December 31, 2004 before restatement, were audited by other auditors whose opinion dated May 9, 2005 and January 23, 2006, on those statements was qualified because of the departure from generally accepted accounting principles described below.

Except as discussed in the following paragraphs, 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 the Association, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Association has \$627,513 recorded as Lots Held for Resale. This account represents numerous lots received from foreclosed owners and the developer as a lawsuit settlement. Several lots were subsequently sold or transferred to the wholly owned subsidiary, Lake Holiday Estates Utility Company. The prior auditors were unable to obtain appropriate support or documentation to substantiate the account balance prior to December 31, 1996.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to substantiate the lots held for resale, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of **Lake Holiday Country Club, Inc.** as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The supplementary information on future major repairs and replacements on pages 20 - 22 is not a required part of the basic financial statements of **Lake Holiday Country Club, Inc.**, but is supplementary information required by the American Institute of Certified Public Accountants. 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.

Kositzka, Wicks and Company

August 27, 2006, except for Note 19, as to which the date is December 29, 2006
Alexandria, Virginia

LAKE HOLIDAY COUNTRY CLUB, INC.**CONSOLIDATED BALANCE SHEETS****December 31,****2005****2004****(Restated)****ASSETS****CURRENT ASSETS**

Cash and Cash Equivalents	\$ 869,048	\$ 2,139,426
Assessments Receivable	277,561	145,311
Accounts Receivable - Net	42,802	29,966
Accounts Receivable - Other	-	1,115
Prepaid Expenses	21,262	22,933
Deferred Tax Asset	426,902	137,535

TOTAL CURRENT ASSETS**\$ 1,637,575** **\$ 2,476,286****PROPERTY AND EQUIPMENT**

Water and Sewer Mains	\$ -	\$ 1,559,315
Land and land improvements	-	1,972,139
Machinery and equipment	-	623,751
Fire hydrant service	-	188,184
Other	-	49,494
Equipment	233,797	146,258
Accumulated depreciation	(122,732)	(1,716,282)

PROPERTY AND EQUIPMENT - NET**\$ 111,065** **\$ 2,822,859****OTHER ASSETS**

Lots Held for Resale	\$ 627,513	\$ 725,760
Assets Held for Sale	1,637,058	-

TOTAL OTHER ASSETS**\$ 2,264,571** **\$ 725,760****TOTAL ASSETS****\$ 4,013,211** **\$ 6,024,905**

See Independent Auditor's Report.

The accompanying Notes are an integral part of the Financial Statements.

	2005	2004 (Restated)
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 208,386	\$ 526,145
Income taxes payable	426,902	137,535
Penalties and interest payable relating to income taxes	110,868	62,926
Prepaid assessments	108,502	17,557
Conformance and damage bonds payable	<u>193,550</u>	<u>132,000</u>
TOTAL CURRENT LIABILITIES	<u>\$ 1,048,208</u>	<u>\$ 876,163</u>
 MEMBERS' EQUITY		
Replacement reserves	\$ 2,299,671	\$ 2,275,457
Moratorium lot fund	121,260	130,720
Contributions in aid of construction - net	2,437,964	1,682,492
Unappropriated Members' equity (deficit)	<u>(1,893,892)</u>	<u>1,060,073</u>
TOTAL MEMBERS' EQUITY	<u>\$ 2,965,003</u>	<u>\$ 5,148,742</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 4,013,211</u></u>	<u><u>\$ 6,024,905</u></u>

KOSITZKA, WICKS AND COMPANY

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

LAKE HOLIDAY COUNTRY CLUB, INC.**CONSOLIDATED STATEMENTS OF INCOME**
for the years ended December 31,

	2005	2004 (Restated)
REVENUE		
Member dues	\$ 1,296,754	\$ 1,022,750
Special assessment	355,149	350,500
Trash fees	56,174	51,516
Capitalization fees	405,000	295,300
Boat slip and registration Fees	68,297	60,752
Interest	61,345	7,281
Resale certificates	26,108	21,608
Late fees	33,463	47,090
Gain on sale of lots	763,655	261,969
Other	89,801	28,650
TOTAL REVENUE	\$ 3,155,746	\$ 2,147,416
OPERATING EXPENSES		
Administrative	\$ 27,625	\$ 22,378
Annual meeting/elections	3,925	3,442
Asphalt and sealcoating	-	19,133
Bad debt	5,209	143,355
Dam mapping and recertification	480	600
Depreciation	26,592	17,175
Guard service	108,158	110,901
Insurance	39,498	46,698
Legal and audit	319,084	152,213
Financial management	76,850	42,468
Payroll and related	362,485	290,583
Penalties and interest	47,939	62,928
Postage, printing, office supplies	80,034	54,576
Professional fees	38,427	95,981
Property and real estate taxes	18,892	27,242
Property repairs and maintenance	64,309	65,136
Property supplies	18,019	1,297
Road repairs	1,825	11,883
Signs	8,195	-
Transit boat dock system	-	1,934
Trash removal	54,088	51,330
Utilities	27,685	30,264
Vehicle repairs	27,834	21,411
Visitor passes and active tags	40,911	-
TOTAL OPERATING EXPENSES	\$ 1,398,064	\$ 1,272,928

-Continued-

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

KOSITZKA, WICKS AND COMPANY

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31,

	2005	2004 (Restated)
INCOME FROM CONTINUING OPERATIONS BEFORE CONTRIBUTION TO RESERVES	\$ 1,757,682	\$ 874,488
Contribution to reserves	<u>(1,537,101)</u>	<u>(1,321,858)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	\$ 220,581	\$ (447,370)
DISCONTINUED OPERATIONS Loss from discontinued utility operations.	<u>(3,174,546)</u>	<u>(225,016)</u>
NET LOSS	<u>\$ (2,953,965)</u>	<u>\$ (672,386)</u>

See Independent Auditor's Report.

The accompanying Notes are an integral part of the Financial Statements.

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY For the years ended December 31, 2005 and 2004 (Restated)

	Moratorium Lot Fund	Contributions in Aid of Construction	Replacement Reserves
Balance as of December 31, 2003 (Restated)	\$ 147,920	\$ 1,396,993	\$ 1,081,992
Additions:			
Contribution to reserves	-	-	1,059,889
Gain on sale of lots	-	-	261,969
Connection fees	-	323,222	-
Inter-Equity Transfers	-	-	141,123
Deductions:			
Owners settlements	(17,200)	-	-
Depreciation	-	(37,723)	-
Asbestos survey	-	-	(530)
Painting	-	-	(4,755)
Marina	-	-	(34,225)
Roads	-	-	(230,006)
Net loss	-	-	-
Balance as of December 31, 2004 (Restated)	\$ 130,720	\$ 1,682,492	\$ 2,275,457
Additions:			
Contribution to reserves	-	-	350,000
Gain on sale of lots	-	-	763,655
Connection fees	(9,460)	817,727	-
Marina revenue	-	-	68,297
Special assessments-roads	-	-	355,149

-Continued-

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

Summit Center Reserves	Special Reserve - Plant Expansion	Unappropriated Members' Equity	Total Members' Equity
\$ 24,053	\$ 138,450	\$ 1,711,079	\$ 4,500,487
-	-	-	1,059,889
-	-	-	261,969
-	-	-	323,222
			-
(24,053)	(138,450)	21,380	-
			-
			-
-	-	-	(17,200)
-	-	-	(37,723)
-	-	-	(530)
-	-	-	(4,755)
-	-	-	(34,225)
-	-	-	(230,006)
-	-	(672,386)	(672,386)
\$ -	\$ -	\$ 1,060,073	\$ 5,148,742
-	-	-	350,000
-	-	-	763,655
-	-	-	808,267
-	-	-	68,297
-	-	-	355,149

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
For the years ended December 31, 2005 and 2004 (Restated)

	Moratorium Lot Fund	Contributions in Aid of Construction	Replacement Reserves
Deductions:			
Depreciation	\$ -	\$ (62,255)	\$ -
Dam	-	-	(194,444)
Gate house	-	-	(141,667)
Marina	-	-	(67,946)
Roads	-	-	(950,075)
Bus stop and mail station replacement	-	-	(147,747)
Camera system	-	-	(10,425)
Club house bathrooms	-	-	(583)
Net loss	-	-	-
Balance as of December 31, 2005	\$ 121,260	\$ 2,437,964	\$ 2,299,671

See Independent Auditor's Report.

The accompanying Notes are an integral part of the Financial Statements.

Summit Center Reserves	Special Reserve - Plant Expansion	Unappropriated Members' Equity	Total Members' Equity
			-
\$ -	\$ -	\$ -	\$ (62,255)
-	-	-	(194,444)
-	-	-	(141,667)
-	-	-	(67,946)
-	-	-	(950,075)
-	-	-	(147,747)
-	-	-	(10,425)
-	-	-	(583)
-	-	(2,953,965)	(2,953,965)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,893,892)</u>	<u>\$ 2,965,003</u>

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31,

	2005	2004 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	\$ (2,953,965)	\$ (672,386)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation	150,915	109,032
Impairment loss write-down	2,837,815	-
(Increase) Decrease in Assessments Receivable	(132,250)	87,740
(Increase) Decrease in Accounts Receivable - Net	(12,836)	-
(Increase) Decrease in Accounts Receivable - Other	1,115	3,649
(Increase) Decrease in Prepaid Expenses	1,671	1,606
(Increase) Decrease in Deferred Tax Asset	(289,367)	(137,535)
Increase (Decrease) in Accounts Payable	(317,759)	(59,934)
Increase (Decrease) in Income Taxes	289,367	137,535
Increase (Decrease) in Penalties and Interest	47,940	62,928
Increase (Decrease) in Prepaid Assessments	90,946	(89,235)
Increase (Decrease) in Conformance and Damage Bonds Payable	61,550	36,000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	\$ (224,858)	\$ (520,600)
CASH FLOWS PROVIDE BY (USED IN)		
INVESTING ACTIVITIES		
Received from Assessments (Reserves)	\$ 773,446	\$ 1,059,889
Received from Connection Fees	808,267	306,022
Proceeds from Sale of Lots	861,906	300,000
Disbursed for Reserve Expenditures	(1,512,891)	(39,510)
Disbursed for Purchase of Fixed Assets	(1,976,248)	(266,569)
NET CASH FLOWS FROM INVESTING ACTIVITIES	\$ (1,045,520)	\$ 1,359,832
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,270,378)	\$ 839,232
CASH AND CASH EQUIVALENTS, beginning of year	2,139,426	1,300,194
CASH AND CASH EQUIVALENTS, end of year	\$ 869,048	\$ 2,139,426

See Independent Auditor's Report.

The accompanying Notes are an integral part of the Financial Statements.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004 (Restated)

1. NATURE OF OPERATIONS

Lake Holiday Country Club, Inc. (the Association) is organized and incorporated under the laws of the Commonwealth of Virginia for the purpose of maintaining and preserving the common property of the Association. The Association is located in Cross Junction, Virginia and consists of approximately 2,700 lots. The Association's Board of Directors administers the Association operations.

The Association is the parent company of a wholly owned subsidiary, Lake Holiday Estates Utility Company (LHEUC). This related company provided water and sewer services to certain members of the Association. LHEUC has executed a sales contract to sell all its assets and operations – see Note 7.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The financial statements are presented on the accrual method of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

Consolidation

The Consolidated Financial Statements include the accounts of Lake Holiday Country Club, Inc. and its subsidiary, Lake Holiday Estates Utility Company. The Association investment in Lake Holiday Estates Utility Company is accounted for by the equity method. Accordingly, the net income of the utility company is included in consolidated net income. All significant inter-company accounts and transactions are eliminated upon consolidation.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005 and 2004 (Restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Member Assessments

Association members are subject to monthly (quarterly in 2004) assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. 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 of owners whose assessments are delinquent in excess of 90 days. Any excess assessments at year end are retained by the Association for use in future years.

The Association uses the allowance method to account for bad debt. No allowance for doubtful accounts was recorded for 2005 or 2004. Management has reviewed the accounts receivable balances at December 31, 2005 and 2004 and believes they are collectible.

Rates and Revenues

Water and sewer rates are established to provide sufficient funds to recover operating cost and debt service relating to the water supply and sanitary sewer systems. House connections assessments and fees are recorded as contributed capital. Accounts receivable at the balance sheet date represent fees due from lot owners. The Company's policy is to retain legal counsel and place liens on the properties of owners whose accounts are delinquent. Any excess revenues at year end are retained by the Company for use in future years. The company utilizes the allowance method for bad debt. Accounts are considered delinquent when not paid by the due date.

Common Property

Real property and common areas acquired from the developer and related improvements to such property are not recorded as an asset in the Association's financial statements since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, land, a lake and dam, recreational facilities and other site improvements.

Depreciation for the Association

Equipment is stated at cost and depreciated using the straight-line method over the estimated lives of the assets.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005 and 2004 (Restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment and Depreciation – Lake Holiday Estates Utility Company, Inc.

Property and equipment is normally recorded at cost. Major items and betterments are capitalized; minor items and repairs are expensed as incurred. During 2005 management reevaluated their capitalization policy. Management concluded Lake Holiday Estates Utility Company capital assets represent an aging system that fails due to the deterioration of the materials, improper installation or the initial use of substandard materials. The policy established by the Utility Company, dating back to early 2005, is that any and all system failures were to be replaced with new materials, and if appropriate were to be bedded in compliance with county code. If a line was excavated in the process of discovery, and it did not evidence reliability, it was replaced whether or not it was failing. Refurbishments and new installations have also been part of the utility infrastructure maintenance and enhancements. This position means that improvements would be capitalized and not expensed as repairs and maintenance, unless specifically identified as a repair. At December 31, 2005 all property and equipment was under contract to be sold. As a result, these assets have been recorded at fair value (see Note 7).

Depreciation of property and equipment is computed principally on the straight-line method using a composite rate of 3% per year. Depreciation expense is stated as the net of depreciation expense less amortization of contributions in aid of construction (CIAC).

	2005	2004
Depreciation expense	\$ 186,578	\$ 129,579
Amoritization of CIAC	<u>(62,255)</u>	<u>(37,723)</u>
Depreciation expense - net	<u>\$ 124,323</u>	<u>\$ 91,856</u>

Income taxes

For income tax purposes, the Association may elect annually to file either as an exempt residential real estate association or as a regular corporation. As an exempt residential real estate association, the Association's net assessment income would be exempt from income tax, but its interest income and revenues received from nonmembers would be taxed at 30% by the federal government and at 6% by the State of Virginia. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. LHEUC is taxed as a regular Corporation.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005 and 2004 (Restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes are accounted for using the Financial Accounting Standards Board Statement of Financial Accounting Standards No.109, "Accounting for Income Taxes" (SFAS No.109), which requires the establishment of a deferred tax asset or liability for the recognition of future deductible or taxable amounts and operating loss and tax credit carryforwards. Deferred tax expense or benefit is recognized as a result of the changes in the assets and liabilities during the year. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. These differences relate primarily to the treatment of connection fees, depreciation and valuation of fixed assets and provision for bad debts

3. CASH AND CASH EQUIVALENTS

As of December 31, 2005 and 2004, the Association maintained its funds in the following manner:

Institution	Account Type	2005	2004
Petty Cash	Imprest	\$ 500	\$ 500
First National Bank of Arizona	Checking	-	896,689
First National Bank of Arizona	Checking	-	256,908
Wachovia	Checking	-	4,598
Bank of Clarke County	Checking	126,370	865
Bank of Clarke County	Checking	113,035	721
Bank of Clarke County	Checking	201	-
Marathon Bank	Checking	-	776
Marathon Bank	Money Market	-	10,240
Morgan Stanley	Money Market	611,385	305,319
Vanguard	Money Fund	-	205,930
First National Bank of Nevada	Money Market	-	97,730
First National Bank of Nevada	Money Market	-	97,730
Wachovia Securities	Checking	-	261,420
Deposits in Transit		17,557	-
Total		<u>\$ 869,048</u>	<u>\$ 2,139,426</u>

Cash accounts at financial institutions are insured by the FDIC for up to \$100,000. Amounts in excess of insured limits as of December 31, 2005 and 2004 total \$56,962 and \$1,115,017, respectively. The Association also kept funds in brokerage accounts which are not FDIC insured equaling \$611,385 and \$716,949 at December 31, 2005 and 2004, respectively.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004 (Restated)

4. ACCOUNTS RECEIVABLE - NET

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are uncollectible. Under the allowance method, collection efforts may continue and recovery of amounts previously written off are recognized as income in the year of collection.

During 2005, the Company wrote off \$4,731 and recorded this as bad debt expense. The allowance for doubtful assessments remained the same at \$123,868. Management has reviewed the allowance for doubtful accounts balances at December 31, 2005 and 2004 and believes they are adequate.

	2005	2004
Assessments Receivable	\$ 166,670	\$ 153,834
Less: Allowance for Doubtful Assessments	<u>(123,868)</u>	<u>(123,868)</u>
Assessments Receivable - Net	<u>\$ 42,802</u>	<u>\$ 29,966</u>

5. LOTS HELD FOR RESALE

The Association holds title to approximately 198 lots located within the Community. These lots were received from a developer settlement and foreclosures in prior years. They are recorded at historical cost and held for resale. Some lots were transferred to the utility company. As of December 31, 2005 and 2004, the recorded value of the lots held for resale was \$627,513 and \$725,760, respectively. During 2004, the Association sold twelve lots for a gain of \$261,969, and during 2005, the Association sold 37 lots for a gain of \$763,655. This gain was contributed to replacement reserves during 2005 and 2004.

6. INCOME TAXES

The Association has elected to file its 2004 and 2005 tax returns as a regular corporation due to the taxability of the gain realized on the sale of lots held for resale. LHEUC has available, at December 31, 2005, unused operating loss carry-forwards of \$325,152, which may be applied against future taxable income expiring in 2023 and 2024. These losses may also be used to offset the Association's income taxes if it elects to file a consolidated tax return for the group. The Association may elect annually to file either as an exempt residential real estate association or as a regular corporation. If it elects to file a consolidated return with the LHEUC, it will be taxed as a corporation and will have to continue to do so until the Company is dissolved or permission is obtained to change the filing status.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004 (Restated)

6. INCOME TAXES (continued)

The potential income tax benefits resulting from the loss carry-forwards amounts to approximately \$130,000 (based on average rates for Federal and State income taxes). These benefits have not been recorded in the financial statements due to the uncertainty of actually realizing the benefits in light of the tax status of the Association and the potential sale of the LHEUC (See Note 7).

As mentioned in Note 7, the LHEUC has executed a contract to sell its assets and operations. As a result, the liquidation of the LHEUC will result in a capital loss to the Association which may be carried back to recover the income taxes due on the 2004 and 2005 tax returns. The recovery of these taxes is reported on the balance sheet as a deferred tax asset.

7. SALE OF LAKE HOLIDAY ESTATES UTILITY COMPANY

On October 21, 2005, LHEUC executed a sales contract to sell the waste water and water system assets (including the assumption of the Lot Moratorium Fund – see Note 11) and operations to Aqua SL, Inc. the LHEUC expects that the final sale and disposal of the assets will be completed during 2006. The potential buyer will pay \$800,000 at closing and will reimburse LHEUC up to \$750,000 for capital expenditures to the utility system and legal fees. Additionally, the potential buyer will pay \$76,000 per year for the next fifteen years if documented contingencies are met. In connection with the sale, the LHEUC determined that the carrying values of the underlying assets exceeded their fair value. Consequently, LHEUC recorded an impairment loss of \$2,837,815 which represents the excess of carrying values of the assets over their fair values, less cost to sell. The impairment loss is recorded as a separate line item (“Impairment loss write-down”) in LHEUC consolidated statement of income for 2005. The carrying value of the assets that are held for sale is separately presented in the Balance Sheet in the caption “Assets Held for Sale”, and these assets are no longer depreciated effective December 31, 2005. The potential sale is dependent on regulatory approval.

8. SUMMIT CENTER RESERVE

The Association elected to establish a Summit center reserve during 2003. The Association contributed \$25,000 to this fund in 2003. As of December 31, 2004, \$24,053 remained in this fund. During 2004, the Summit Center reserve was eliminated through an inter-equity transfer.

See Independent Auditor’s Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004 (Restated)

9. REPLACEMENT RESERVES

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements; however, the Association has elected to set aside assets for replacement reserves. Accumulated funds are generally not available for expenditures for normal operations, however the Association has loaned funds to Lake Holiday Estates Utility Company.

In 2000, the Association had a replacement reserve study conducted by an engineer. The table included in the supplementary information of Future Major Repairs and Replacements is based on this study. The Association is funding for future major repairs and replacements based on estimates by the board of Directors and considering amounts previously accumulated in the replacement reserves.

Accordingly, the 2004 funding recommendation of \$900,889 from assessments (approximately \$514 per lot per year) has been included in the financial statements. Additionally, the Association contributed capitalization fees from new owners to the replacement reserves of \$159,000 and the gain on the sale of twelve lots in the amount of \$261,969. Also during 2004, the Association made an inter-equity transfer from replacement reserves to unappropriated members' equity of \$21,380, resulting in a total contribution of \$1,321,858 in 2004.

As part of a court ordered moratorium, the Association was obligated to set aside \$325/lot (water available) into a separate fund, to help partially fund the future plant expansion projects of the water and sewer treatment plant. During 2004, \$138,450 was transferred to replacement reserves.

The 2005 funding recommendation of \$350,000 from assessments (approximately \$196 per lot per year) has been included in the financial statements. Additionally, the Association contributed the gain on the sale of thirty-one lots in the amount of \$763,655. Special assessments for roads of \$355,149 and receipts from marina related activities of \$68,297 were added to the reserves. The total of \$1,537,101 was contributed to reserves in 2005.

Funds are being accumulated in replacement reserves based on estimates by management. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004 (Restated)

9. REPLACEMENT RESERVES (Continued)

As of December 31, 2005 and 2004, the Association had designated \$2,299,671 and \$2,275,457, respectively, for replacement reserves. These designated reserves were funded by cash and cash equivalents and were divided into the following components:

	2005	2004
General	\$ 1,726,302	\$ 1,000,000
Clubhouse	450,000	450,000
Dam	105,556	200,000
Gatehouse	-	143,000
Lot Owner Road	-	344,500
Roads	-	120,494
Marina	17,813	17,463
Total	<u>\$ 2,299,671</u>	<u>\$ 2,275,457</u>

On December 31, 2004 there were reserves for a gatehouse, lot owner road assessments, and board designated road funds as listed above. During 2005, these funds were disbursed for their designated purposes and have no reserve balances at December 31, 2005.

11. MORATORIUM LOT FUND

LHEUC was subjected to a court ordered moratorium for 427 lots that were unable to be developed until the wastewater treatment facility is expanded. During 2000, LHEUC and Lake Holiday Country Club, Inc. resolved to contribute the fees charged on the moratorium lots for 1999, 2000, and 2001 to a special fund. Effective August 1, 2002 the moratorium was lifted subject to board resolutions. The board elected to credit all owners who were paid in full at the end of the moratorium (July 31, 2002) \$860 towards the one-time connection fees as the lots are settled. There are 179 lots that are eligible for this credit for a total of \$153,940; of this amount \$9,460 and \$23,220 were credited to lots that settled through 2005 and 2004, respectively. An inter-equity transfer of \$108,567 was made to accumulated net revenue for the lots that were not eligible for the credit. As of December 31, 2005 and 2004, \$121,260 and \$130,720, respectively, remains in the moratorium lot fund to be credited to future connection fees as lots settle. This liability will be assumed by the purchaser of the LHEUC assets and operations. See Note 7 for more information.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005 and 2004 (Restated)

12. CONTRIBUTIONS IN AID OF CONSTRUCTION - NET

At inception each lot owner that had access to water and sewer services contributed a one-time capital contribution to aid in the construction of the water and sewer facilities for a total of \$492,349. During 2002, the Consolidated Lake Holiday Country Club, Inc. contributed expanded plant facilities for a cost of \$385,169. Additionally, the water and sewer connection fees are contributed to this account. The depreciation rate is a 3% composite rate.

	2005	2004
Initial Plant - Non-Depreciable	\$ 492,349	\$ 492,349
Plant Expansion - Depreciable	385,169	385,169
Connection Fees - Depreciable	1,689,986	872,259
Less: Accumulated Depreciation	(129,540)	(67,285)
Contribution in Aid of Construction - Net	<u>\$ 2,437,964</u>	<u>\$ 1,682,492</u>

13. PRIOR PERIOD ADJUSTMENT

During 2005 it was determined that an \$87,720 adjustment was needed to correctly reflect the number of lots eligible for the moratorium lot fund credit for LHEUC as of December 31, 2003. As a result, an \$87,720 adjustment was needed to increase the balance in the Moratorium Lot Fund account and reduce the balance in the Unappropriated Member's Equity account, accordingly.

	As Originally Stated	Adjustment	As Restated
Moratorium Lot Fund	<u>\$ 60,200</u>	<u>\$ 87,720</u>	<u>\$ 147,920</u>
Unappropriated Member's Equity	<u>\$ 1,798,799</u>	<u>\$ (87,720)</u>	<u>\$ 1,711,079</u>

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005 and 2004 (Restated)

13. PRIOR PERIOD ADJUSTMENT (Continued)

During 2005, it was determined that the Association owed income taxes on its non-exempt income for 2004. A prior year adjustment was needed to restate the 2004 income tax expense and liability. This adjustment had the following effect on the 2004 financial statements.

	As Originally Stated	2003 Adjustment	2004 Adjustment	As Restated
Unappropriated Member's Equity	\$ 1,210,721	\$ (87,720)	\$ (62,928)	\$ 1,060,073
Net Loss	\$ (609,458)	\$ -	\$ (62,928)	\$ (672,386)
Penalties and Interest payable	\$ -	\$ -	\$ 62,928	\$ 62,928
Income taxes payable	\$ -	\$ -	\$ (137,535)	\$ (137,535)
Deferred tax asset	\$ -	\$ -	\$ 137,535	\$ 137,535

14. SPECIAL ASSESSMENT

During 2004, the Association levied a special assessment in the amount of \$350,500. The special assessment was due during 2004 in quarterly payments of \$50 per lot. During 2005, the Association levied a special assessment in the amount of \$355,149. The special assessment was due during 2005 in monthly payments of \$16.67 per lot. Both special assessments will be used to fund road improvements.

15. CHANGE IN MANAGEMENT

Effective January 1, 2005, the Association changed financial management agents and R. Michael Kilmer, CPA, P.C. became the new financial management agent.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **December 31, 2005 and 2004 (Restated)**

16. CONTINGENCIES

The Association is the defendant in a lawsuit filed by a Limited Liability Company alleging favorable conditions were given to another Company concerning the extension of utility service provided by LHEUC (co-defendant) in a contract. On August 2, 2006, the charges against LHEUC were dismissed but the Complainant has appealed the ruling. Management is contesting the case vigorously, believes that the case lacks merit and estimates the likelihood of an unfavorable outcome is remote.

In June 2006 the Board of Directors compiled a replacement reserve study. In addition numerous capital improvements, the study notes potential improvements to the dam. The study notes that the State of Virginia has adopted more stringent safety requirements than those in place when the dam was originally build. The current dam does not meet these more stringent requirements. It is estimated that modifications to bring the dam up to current Virginia safety requirements could cost \$4,000,000. Funding requirements will have to come from sources other than the replacement reserve.

17. DISCONTINUED OPERATIONS

On October 21, 2005, the Company determined to no longer operate the Lake Holiday Estates Utility Company as a continuing operation. The expected disposal date is December 2006. Lake Holiday Estates Utility Company's operating revenues, reported in discontinued operations, for the years ended December 31, 2005 and December 31, 2004 were \$664,932 and \$647,569, respectively. Lake Holiday Estates Utility Company's pretax loss, reported in discontinued operations, for the years ended December 31, 2005 and December 31, 2004 was \$359,212 and \$225,016, respectively. Prior year financial statements have been restated to present the operations of Lake Holiday Estates Utility Company as a discontinued operation.

In conjunction with the discontinuance of operations, the Company recognized a loss of \$2,387,815 in 2005 to write down the related carrying amounts to their fair values less cost to sell.

18. CONTRACTS

The Association executed a development agreement with Lake Holiday, LLC and Lake Holiday Land, Inc. on May 21, 2004 (amended June 9, 2006). The contract is a mutual commitment concerning the development of lots, infrastructure improvements and construction of houses in certain sections of Lake Holiday. The contract also states that Lake Holiday, LLC and Lake Holiday Land, Inc. will make contributions for certain projects at Lake Holiday.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004 (Restated)

19. SUBSEQUENT EVENTS

In September 2006, the Association obtained a \$500,000 demand line of credit secured by real and personal property for short term working capital purposes. Interest accrues at LIBOR Market Index Rate plus 1.65%.

A past Board of Directors and certain individual past and present Directors are defendants in a law suit charging a wide variety of bad acts including holding a flawed election for Directors in 2005. The law suit has, at this time, not been concluded and the impact on the Association cannot be determined.

See Independent Auditor's Report.

ADDITIONAL INFORMATION

KOSITZKA AND COMPANY WICKS

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Additional Information

The Board of Directors
Lake Holiday Country Club, Inc.
Cross Junction, Virginia

Our report on our audit of the basic financial statements of **Lake Holiday Country Club, Inc.** (consolidated) for the years ended December 31, 2005 and 2004 appears at the beginning of the consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information on pages 21 through 28 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kositzka, Wicks and Company

Alexandria, Virginia
August 27, 2006

LAKE HOLIDAY COUNTRY CLUB, INC.**Supplementary Information on Future Major Repairs and Replacements****December 31, 2005****(UNAUDITED)**

The Association had a replacement reserves study conducted by an engineer in 2000 to estimate the remaining useful lives and the replacement costs to the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property:

<u>Component</u>	<u>2000 Estimated Remaining Useful Life (years)</u>	<u>2000 Estimated Replacement Cost</u>
Lake Club House:		
Structural	25	\$ 375,000
Roofing	1	15,000
Plumbing/Electrical	1	1,000
Summit Facilities:		
Structural	25	75,000
Roofing	5-20	9,000
Plumbing/Electrical		500
Administrative Offices:		
Structural	25	1,000
Roofing	10-30	30,000
Plumbing/Electrical	1	750
Office Equipment	5	30,000
Boat Docks	5-20	52,000
Dam	25	2,000,000
Roads	Variable	1,216,000
Tennis Courts	10-20	30,000
Entry Facilities	5-20	25,000

See Independent Auditor's Report on Additional Information.

LAKE HOLIDAY COUNTRY CLUB, INC.**Supplementary Information on Future Major Repairs and Replacements****December 31, 2005****(UNAUDITED)**

Effective June 26, 2006, the Association adopted a policy requiring the Board of Directors to conduct a Replacement Reserve Study to be reviewed and revised annually. The Board may, at its discretion, hire a third party to perform the Replacement Reserve Study.

The following has been extracted from the association's Board of Directors' self-conducted Replacement study dated June 2006.

<u>Component</u>	<u>2006 Estimated Remaining Useful Life (years)</u>	<u>2006 Estimated Replacement Cost</u>
Summit Facilities:		
Structural	5-20	\$ 33,600
Roofing	5	28,800
Administrative Offices:		
Structural	4	60,000
Roofing	0	9,600
Plumbing/Electrical	4	23,000
Boat Docks	3-28	330,000
Roads	10-15	3,067,425
Tennis Courts	5-40	30,000
Entry Facilities	25-30	208,000
Vehicles and Equipment	3-15	543,725

See Independent Auditor's Report on Additional Information.

LAKE HOLIDAY COUNTRY CLUB, INC.

Supplementary Information on Future Major Repairs and Replacements

December 31, 2005

(UNAUDITED)

The summary above does not include the following proposed projects:

- Renovations to the existing Clubhouse are contemplated for the latter half of 2006 at an estimated cost of \$1,600,000
- LHCC is responsible for a dam that creates the 240 acre lake at the center of the community. Since the dam was originally constructed, the Commonwealth of Virginia has adopted more stringent safety requirements than those in place when the dam was originally built. It is estimated that modifications to bring the dam up to current Virginia safety requirements could cost some \$4,000,000. The Board of Directors feels that funding requirements of this magnitude will have to come from sources other than the reserve account.
- Proposed construction of a new office building and recommended relocation of the maintenance site at an estimated cost \$500,000.

See Independent Auditor's Report on Additional Information.

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING BALANCE SHEETS

December 31, 2005

	<u>Lake Holiday Country Club, Inc.</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 756,013
Assessments receivable	277,561
Accounts receivable - net	-
Accounts receivable - other	24,471
Prepaid expenses	7,804
Deferred tax asset	<u>426,902</u>
TOTAL CURRENT ASSETS	<u>\$ 1,492,751</u>
PROPERTY AND EQUIPMENT	
Equipment - net	<u>\$ 111,065</u>
OTHER ASSETS	
Lots held for resale	\$ 627,513
Investment in Lake Holiday Estates Utility Company	(2,224,451)
Note receivable, unsecured - current portion	81,969
Note receivable, unsecured - long term	1,336,843
Assets held for sale	<u>-</u>
TOTAL OTHER ASSETS	<u>\$ (178,126)</u>
TOTAL ASSETS	<u><u>\$ 1,425,690</u></u>

See Independent's Auditor's Report on Additional Information.

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ 113,035	\$ -	\$ 869,048
-	-	277,561
42,802	-	42,802
-	(24,471)	-
13,458	-	21,262
-	-	426,902
<u>\$ 169,295</u>	<u>\$ (24,471)</u>	<u>\$ 1,637,575</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,065</u>
\$ -	\$ -	\$ 627,513
-	2,224,451	-
-	(81,969)	-
-	(1,336,843)	-
1,637,058	-	1,637,058
<u>\$ 1,637,058</u>	<u>\$ 805,639</u>	<u>\$ 2,264,571</u>
<u>\$ 1,806,353</u>	<u>\$ 781,168</u>	<u>\$ 4,013,211</u>

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING BALANCE SHEETS
December 31, 2005

	<u>Lake Holiday Country Club, Inc.</u>
LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES	
Accounts Payable and accrued expenses	\$ 198,879
Income taxes payable, current	426,902
Penalties and interest payable, current	110,868
Prepaid assessments	89,712
Conformance and damage bonds payable	193,550
Accrued interest payable	-
Current maturities of long-term debt	-
	<hr/>
TOTAL CURRENT LIABILITIES	\$ 1,019,911
	<hr/>
LONG-TERM LIABILITIES	
Long-term debt (less current maturities)	\$ -
	<hr/>
TOTAL LIABILITIES	\$ 1,019,911
	<hr/>
MEMBERS' EQUITY	
Replacement reserves	\$ 2,299,671
Moratorium lot fund	-
Lake Holiday Country Club Contributions	-
Contributions in aid of construction - net	-
Class A common stock, par value \$10	-
(100 shares issued and outstanding, 20,000 shares authorized)	-
Class B common stock, par value \$10	-
(32,683 shares issued and outstanding, 100,000 authorized)	-
Paid in capital	-
Unappropriated members' equity	(1,893,892)
Accumulated net revenue	-
	<hr/>
TOTAL MEMBERS' EQUITY	\$ 405,779
	<hr/>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 1,425,690
	<hr/>

See Independent's Auditor's Report on Additional Information.

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ 20,657	\$ (11,150)	\$ 208,386
-	-	426,902
-	-	110,868
18,790	-	108,502
-	-	193,550
13,322	(13,322)	-
81,969	(81,969)	-
<u>\$ 134,738</u>	<u>\$ (106,441)</u>	<u>\$ 1,048,208</u>
<u>\$ 1,336,843</u>	<u>\$ (1,336,843)</u>	<u>\$ -</u>
<u>\$ 1,471,581</u>	<u>\$ (1,443,284)</u>	<u>\$ 1,048,208</u>
\$ -	\$ -	\$ 2,299,671
121,260	-	121,260
1,193,839	(1,193,839)	-
2,437,964	-	2,437,964
-	-	-
1,000	(1,000)	-
-	-	-
326,830	(326,830)	-
372,700	(372,700)	-
-	-	(1,893,892)
(4,118,821)	4,118,821	-
<u>\$ 334,772</u>	<u>\$ 2,224,452</u>	<u>\$ 2,965,003</u>
<u>\$ 1,806,353</u>	<u>\$ 781,168</u>	<u>\$ 4,013,211</u>

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING STATEMENT OF INCOME for the year ended December 31, 2005

	Lake Holiday Country Club, Inc.
REVENUE	
Member dues	\$ 1,296,754
Special assessment	355,149
Trash fees	56,174
Capitalization fees	405,000
Boat slip and registration Fees	68,297
Interest	61,345
Resale certificates	26,108
Late fees	33,463
Gain on sale of lots	763,655
Other	89,801
TOTAL REVENUE	<u>\$ 3,155,746</u>
OPERATING EXPENSES	
Administrative	\$ 27,625
Annual meeting/elections	3,925
Bad debt	5,209
Dam mapping and recertification	480
Depreciation	26,592
Guard service	108,158
Insurance	39,498
Legal and audit	319,084
Financial management	76,850
Payroll and related	362,485
Penalties and interest	47,939
Postage, printing, office supplies	57,553
Professional fees	38,427
Property and real estate taxes	18,892
Property repairs and maintenance	64,309
Property supplies	18,019
Road repairs	1,825
Signs	8,195
Trash removal	54,088
Utilities	27,685
Vehicle repairs	27,834
Visitor passes and active tags	40,911
TOTAL OPERATING EXPENSES	<u>\$ 1,375,583</u>

-Continued-

See Independent's Auditor's Report on Additional Information.

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ -	\$ -	\$ 1,296,754
-	-	355,149
-	-	56,174
-	-	405,000
-	-	68,297
-	-	61,345
-	-	26,108
-	-	33,463
-	-	763,655
-	-	89,801
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,155,746</u>
\$ -	\$ -	\$ 27,625
-	-	3,925
-	-	5,209
-	-	480
-	-	26,592
-	-	108,158
-	-	39,498
-	-	319,084
-	-	76,850
-	-	362,485
-	-	47,939
-	22,481	80,034
-	-	38,427
-	-	18,892
-	-	64,309
-	-	18,019
-	-	1,825
-	-	8,195
-	-	54,088
-	-	27,685
-	-	27,834
-	-	40,911
<u>\$ -</u>	<u>\$ 22,481</u>	<u>\$ 1,398,064</u>

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING STATEMENT OF INCOME
for the year ended December 31, 2005

	<u>Lake Holiday Country Club, Inc.</u>
INCOME FROM CONTINUING OPERATIONS BEFORE CONTRIBUTION TO RESERVES	\$ 1,780,163
Contribution to reserves	<u>(1,537,101)</u>
INCOME FROM CONTINUING OPERATIONS	<u>\$ 243,062</u>
LOSS FROM OPERATION OF DISCONTINUED UTILITY OPERATIONS	
Operating Revenues	<u>\$ -</u>
Expenses	
Administrative	\$ -
Water plant	-
Sewer plant	-
Taxes and licenses	-
Depreciation	-
Impairment loss write-down	-
Equity in Lake Holiday Estates Utility Company earnings	<u>3,197,026</u>
Total expenses	<u>\$ 3,197,026</u>
LOSS FROM DISCONTINUED UTILITY OPERATIONS	<u>\$ (3,197,026)</u>
NET LOSS	<u><u>\$ (2,953,964)</u></u>

See Independent's Auditor's Report on Additional Information.

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ -	\$ (22,481)	\$ 1,757,682
-	-	(1,537,101)
\$ -	\$ (22,481)	\$ 220,581
\$ 664,932	\$ -	\$ 664,932
\$ 187,275	\$ (22,481)	\$ 164,794
313,458		313,458
371,387		371,387
27,701		27,701
124,323		124,323
2,837,815		2,837,815
-	(3,197,026)	-
\$ 3,861,959	\$ (3,219,507)	\$ 3,839,478
\$ (3,197,027)	\$ 3,219,507	\$ (3,174,546)
\$ (3,197,027)	\$ 3,197,026	\$ (2,953,965)

LAKE HOLIDAY COUNTRY CLUB, INC.**CONSOLIDATING STATEMENT OF CASH FLOWS**
for the year ended December 31, 2005

	<u>Lake Holiday Country Club, Inc.</u>
RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY (USED) OPERATIONS	
NET LOSS	\$ (2,953,964)
ADJUSTMENT TO RECONCILE NET LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Depreciation	26,592
Impairment Loss Write-down	-
Investment in Lake Holiday Estates Utility Company (Net Loss)	3,197,026
(Increase) Decrease in Assessments Receivable	(132,250)
(Increase) Decrease in Accounts Receivable - Net	-
(Increase) Decrease in Accounts Receivable - Other	13,567
(Increase) Decrease in Prepaid Expenses	1,852
(Increase) Decrease in Deferred Tax Asset	(289,367)
Increase (Decrease) in Accounts Payable	(180,046)
Increase (Decrease) in Income Taxes	289,367
Increase (Decrease) in Penalties and Interest	47,939
Increase (Decrease) in Prepaid Assessments	81,407
Increase (Decrease) in Conformance and Damage Bonds Payable	61,550
Net Cash Flows Provided By (Used In) Operating Activities	<u>\$ 163,673</u>
CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	
Received from Assessments (Reserves)	\$ 773,446
Received from Connection Fees	-
Proceeds from Sale of Lots	861,906
Disbursed for Reserve Expenditures	(1,512,891)
Disbursed for Purchase of Fixed Assets	(87,539)
Net Cash Flows from Investing Activities	<u>\$ 34,922</u>
Cash Flows (Used In) Financing Activities	
Loans to Lake Holiday Estates Utility Company	<u>\$ (1,211,812)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (1,013,217)</u>
Cash and Cash Equivalents at Beginning of Year	<u>\$ 1,769,230</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 756,013</u></u>

See Independent's Auditor's Report on Additional Information.

<u>Lake Holiday Estates Utility Company</u>	<u>Eliminating Inter-company Balances</u>	<u>Total</u>
\$ (3,197,027)	\$ 3,197,026	\$ (2,953,965)
124,323	-	150,915
2,837,815	-	2,837,815
-	(3,197,026)	-
-	-	(132,250)
(12,837)	-	(12,837)
-	(12,452)	1,115
(181)	-	1,671
-	-	(289,367)
(150,163)	12,452	(317,757)
-	-	289,367
-	-	47,939
9,539	-	90,946
-	-	61,550
<u>\$ (388,531)</u>	<u>\$ -</u>	<u>\$ (224,858)</u>
\$ -	\$ -	\$ 773,446
808,267	-	808,267
-	-	861,906
-	-	(1,512,891)
(1,888,709)	-	(1,976,248)
<u>\$ (1,080,442)</u>	<u>\$ -</u>	<u>\$ (1,045,520)</u>
\$ 1,211,812	\$ -	\$ -
<u>\$ (257,161)</u>	<u>\$ -</u>	<u>\$ (1,270,378)</u>
\$ 370,196	\$ -	\$ 2,139,426
<u>\$ 113,035</u>	<u>\$ -</u>	<u>\$ 869,048</u>

KOSITZKA, WICKS AND COMPANY

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS