

**LAKE HOLIDAY
COUNTRY CLUB, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

**for the years ended December 31, 2006
and 2005 (Restated)**

BOARD OF DIRECTORS
Lake Holiday Country Club, Inc.

Wayne Poyer, President
Dave Buermeyer, Vice President
Ken Murphy, Secretary
John Martel, Treasurer

MEMBERS AT LARGE:

Chris Allison
Chris Anderson
Margie Hoffman
Steve Locke
Suzy Marcus
Noel O'Brien
Pat Shields

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, 2006 and 2005 (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 - 7
Notes to the Financial Statements	8 - 18

ADDITIONAL INFORMATION

19

Independent auditor's report on additional information	20
Supplemental information	21 - 22
Consolidating Reports	
Balance Sheet	23 - 24
Statement of Income	25 - 26
Statement of Cash Flows	27 - 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 sheets of **Lake Holiday Country Club, Inc.** as of December 31, 2006 and 2005, and the related statements of income, members' equity, and cash flows for the years then ended. We also audited the adjustment described in Note 12 that was applied to restate the 2005 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 audits.

Except as discussed in the following paragraphs, 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 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 \$624,344 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Lake Holiday Country Club, Inc.** as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years 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 21 - 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

February 26, 2007
Alexandria, Virginia

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED BALANCE SHEETS December 31,

2006

2005
(Restated)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 209,911	\$ 869,048
Assessments receivable	429,827	277,561
Accounts receivable, net	49,545	42,802
Due from Aqua Lake Holiday Utilities, Inc.	1,214,088	-
Prepaid expenses	15,711	21,262
Deferred tax asset	-	426,902

TOTAL CURRENT ASSETS

\$ 1,919,082 \$ 1,637,575

PROPERTY AND EQUIPMENT

Equipment	\$ 297,930	\$ 233,797
Accumulated depreciation	(161,336)	(122,732)

PROPERTY AND EQUIPMENT - NET

\$ 136,594 \$ 111,065

OTHER ASSETS

Lots held for resale	\$ 624,344	\$ 627,513
Due from Aqua Lake Holiday Utilities, Inc.	794,213	-
Assets held for sale	-	1,637,058

TOTAL OTHER ASSETS

\$ 1,418,557 \$ 2,264,571

TOTAL ASSETS

\$ 3,474,233 \$ 4,013,211

See Independent Auditor's Report.

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

	2006	2005 (Restated)
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 169,447	\$ 208,386
Line of credit	350,179	-
Income taxes payable	-	426,902
Penalties and interest payable relating to income taxes	131,555	110,868
Prepaid assessments	87,148	108,502
Conformance and damage bonds payable	154,000	193,550
TOTAL CURRENT LIABILITIES	\$ 892,329	\$ 1,048,208
MEMBERS' EQUITY		
Replacement reserves	\$ 712,868	\$ 2,299,671
Moratorium lot fund	-	121,260
Contributions in aid of construction	-	-
Unappropriated Members' equity (deficit)	1,869,036	544,072
TOTAL MEMBERS' EQUITY	\$ 2,581,904	\$ 2,965,003
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,474,233	\$ 4,013,211

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31,

	2006	2005 (Restated)
REVENUE		
Member dues	\$ 1,296,071	\$ 1,296,754
Special assessment	463,601	355,149
Trash fees	63,509	56,174
Capitalization fees	193,000	405,000
Boat slip and registration fees	67,868	68,297
Interest	65,560	61,345
Resale certificates	13,202	26,108
Late fees	34,261	33,463
Gain on sale of lots	54,092	763,655
Other	65,871	89,801
TOTAL REVENUE	\$ 2,317,035	\$ 3,155,746
OPERATING EXPENSES		
Administrative	\$ 35,423	\$ 27,625
Annual meeting/elections	2,906	3,925
Bad debt	27,238	5,209
Dam mapping and recertification	4,823	480
Depreciation	38,604	26,592
Guard service	129,324	108,158
Insurance	61,885	39,498
Interest	5,436	
Legal and audit	321,651	319,084
Financial management	53,084	76,850
Payroll and related	430,281	362,485
Penalties and interest	20,688	47,939
Postage, printing, office supplies	77,008	80,034
Professional fees	18,416	38,427
Property and real estate taxes	25,435	18,892
Property repairs and maintenance	53,735	64,309
Property supplies	14,364	18,019
Road repairs	9,376	1,825
Signs	2,651	8,195
Trash removal	74,879	54,088
Utilities	28,633	27,685
Vehicle repairs	31,755	27,834
Visitor passes and active tags	2,753	40,911
TOTAL OPERATING EXPENSES	\$ 1,470,348	\$ 1,398,064

-Continued-

See Independent Auditor's Report.

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

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31,

	2006	2005 (Restated)
INCOME FROM CONTINUING OPERATIONS BEFORE CONTRIBUTION TO RESERVES	\$ 846,687	\$ 1,757,682
Contribution to reserves	<u>(710,692)</u>	<u>(1,537,101)</u>
INCOME FROM CONTINUING OPERATIONS	\$ 135,995	\$ 220,581
DISCONTINUED OPERATIONS		
Loss from discontinued utility operations.	<u>(501,500)</u>	<u>(736,582)</u>
NET LOSS	<u>\$ (365,505)</u>	<u>\$ (516,001)</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, 2006 and 2005 (Restated)

	<u>Moratorium Lot Fund</u>	<u>Contributions in Aid of Construction</u>
Balance as of December 31, 2004	\$ 130,720	\$ 1,682,492
Additions:		
Contribution to reserves	-	-
Gain on sale of lots	-	-
Connection fees	(9,460)	817,727
Marina revenue	-	-
Special assessments-roads	-	-
Deductions:		
Depreciation	-	(62,255)
Dam	-	-
Gate house	-	-
Marina	-	-
Roads	-	-
Bus stop and mail station replacement	-	-
Camera system	-	-
Club house bathrooms	-	-
Offset against impairment loss	-	(2,437,964)
Net loss	-	-
Balance as of December 31, 2005 (Restated)	<u>\$ 121,260</u>	<u>\$ -</u>

-Continued-

See Independent Auditor's Report.

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

Replacement Reserves	Unappropriated Members' Equity	Total Members' Equity
\$ 2,275,457	\$ 1,060,073	\$ 5,148,742
350,000	-	350,000
763,655	-	763,655
-	-	808,267
68,297	-	68,297
355,149	-	355,149
-	-	(62,255)
(194,444)	-	(194,444)
(141,667)	-	(141,667)
(67,946)	-	(67,946)
(950,075)	-	(950,075)
(147,747)	-	(147,747)
(10,425)	-	(10,425)
(583)	-	(583)
-	-	(2,437,964)
-	(516,001)	(516,001)
\$ 2,299,671	\$ 544,072	\$ 2,965,003

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
For the years ended December 31, 2006 and 2005 (Restated)

	Moratorium Lot Fund	Contributions in Aid of Construction
Balance as of December 31, 2005 (Restated)	\$ 121,260	\$ -
Additions:		
Capitalization fees	(59,860)	-
Additional credits identified	75,259	-
Gain on sale of lots	-	-
Connection fees	-	526,856
Special assessments-roads	-	-
Assumed by Aqua Lake Holiday Utilities, Inc.	(136,659)	-
Inter-equity transfers	-	-
Deductions:		
Dam	-	-
Roads	-	-
Bus stop and mail station replacement	-	-
Camera system	-	-
Club house bathrooms	-	-
Offset against impairment loss	-	(526,856)
Net loss	-	-
Balance as of December 31, 2006	\$ -	\$ -

See Independent Auditor's Report.

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

Replacement Reserves	Unappropriated Members' Equity	Total Members' Equity
\$ 2,299,671	\$ 544,072	\$ 2,965,003
193,000	59,860	193,000
-	(75,259)	-
54,092	-	54,092
-	(526,856)	-
463,601	-	463,601
-	136,659	-
(1,569,209)	1,569,209	-
-	-	-
(24,289)	-	(24,289)
(698,915)	-	(698,915)
(3,385)	-	(3,385)
(424)	-	(424)
(1,274)	-	(1,274)
-	526,856	-
-	(365,505)	(365,505)
<u>\$ 712,868</u>	<u>\$ 1,869,036</u>	<u>\$ 2,581,904</u>

LAKE HOLIDAY COUNTRY CLUB, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31,****2006****2005
(Restated)****CASH FLOWS FROM OPERATING ACTIVITIES**

NET LOSS	\$ (365,505)	\$ (516,001)
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**ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Depreciation	38,604	150,915
Impairment loss write-down	(35,188)	399,851
(Increase) Decrease in Assessments receivable	(174,554)	(132,250)
(Increase) Decrease in Accounts receivable - net	-	(12,836)
(Increase) Decrease in Accounts receivable - other	(41,752)	1,115
(Increase) Decrease in prepaid expenses	5,551	1,671
(Increase) Decrease in Deferred tax asset	-	(289,367)
Increase (Decrease) in Accounts payable	18,359	(317,759)
Increase (Decrease) in Income taxes	-	289,367
Increase (Decrease) in Penalties and interest	20,687	47,940
Increase (Decrease) in Prepaid assessments	(21,354)	90,946
Increase (Decrease) in Conformance and damage bonds payable	(39,550)	61,550

NET CASH FLOWS USED BY OPERATING ACTIVITIES	<u>\$ (594,702)</u>	<u>\$ (224,858)</u>
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**CASH FLOWS PROVIDED (USED) BY
INVESTING ACTIVITIES**

Received from Assessments (Reserves)	\$ 656,601	\$ 773,446
Received from Connection fees	526,856	808,267
Proceeds from Sale of lots	57,260	861,906
Disbursed for Reserve expenditures	(728,287)	(1,512,891)
Disbursed for Purchase of fixed assets	(927,044)	(1,976,248)

NET CASH FLOWS USED BY INVESTING ACTIVITIES	<u>\$ (414,614)</u>	<u>\$ (1,045,520)</u>
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See Independent Auditor's Report.

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

LAKE HOLIDAY COUNTRY CLUB, INC.

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

	2006	2005 (Restated)
CASH PROVIDED BY FINANCING ACTIVITIES		
Proceeds from line of credit	<u>\$ 350,179</u>	<u>\$ -</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>\$ (659,137)</u>	<u>\$ (1,270,378)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>869,048</u>	<u>2,139,426</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 209,911</u></u>	<u><u>\$ 869,048</u></u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Sale of operating assets	<u>\$ 2,008,301</u>	<u>\$ -</u>
Less unpaid at year end	<u>(2,008,301)</u>	<u>-</u>
Net	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 5,436</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

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, 2006 and 2005 (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 sold all its operating 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.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005 (Restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. 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 2006 or 2005. Management has reviewed the accounts receivable balances at December 31, 2006 and 2005 and believes they are collectible.

Rates and Revenues

Water and sewer rates were 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 were recorded as contributed capital. Accounts receivable at the balance sheet date represent fees due from lot owners. LHEUC's policy is to retain legal counsel and obtain judgments on the properties of owners whose accounts are delinquent. Any excess revenues at year end were retained by LHEUC for use in future years. LHEUC 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, 2006 and 2005 (Restated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

On December 31, 2006 all property and equipment was sold. See Note 7.

Prior to 2005, property and equipment was recorded at cost. Major items and betterments were capitalized; minor items and repairs were expensed as incurred. During 2005 management reevaluated their capitalization policy. Management concluded Lake Holiday Estates Utility Company capital assets represented an aging system that was failing 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, was 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 did not evidence reliability it was replaced whether or not it was failing. Refurbishments and new installations were also part of the utility infrastructure maintenance and enhancements. This position meant that improvements were capitalized and not expensed as repairs and maintenance unless specifically identified as a repair.

Depreciation of property and equipment was computed principally on the straight-line method using a composite rate of 3% per year. Depreciation expense was stated as the net of depreciation expense less amortization of contributions in aid of construction (CIAC). Depreciation expense was not recorded for 2006 because the assets were classified as held for sale and were sold in 2006.

	2006	2005
Depreciation expense	\$ -	\$ 186,578
Amortization of CIAC	-	(62,255)
Depreciation expense, net	<u>\$ -</u>	<u>\$ 124,323</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, 2006 and 2005 (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 carry-forwards. 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, 2006 and 2005, the Association maintained its funds in the following manner:

Institution	Account Type	2006	2005
Petty Cash	Imprest	\$ 500	\$ 500
Wachovia	Checking	77,382	-
Bank of Clarke County	Checking	69,155	126,370
Bank of Clarke County	Checking	15,596	113,035
Bank of Clarke County	Checking	-	201
Morgan Stanley	Money Market	31,256	611,385
Deposits in Transit		16,022	17,557
Total		<u>\$ 209,911</u>	<u>\$ 869,048</u>

Bank accounts at financial institutions are insured by the FDIC for up to \$100,000. As of December 31, 2006 all bank balances at these institutions were insured. The Association also kept funds in brokerage accounts which are not FDIC insured equaling \$31,256 and \$611,385 at December 31, 2006 and 2005, respectively.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2006 and 2005 (Restated)

4. ACCOUNTS RECEIVABLE, NET

LHEUC 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. See also Note 2 in regard to member assessments.

During 2006 and 2005, LHEUC wrote off \$28,411 and \$4,731 respectively. Management has reviewed the allowance for doubtful accounts balances at December 31, 2006 and 2005 and believes they are adequate. When management reviewed the accounts with judgments included in Assessments receivable at December 31, 2006 it reduced the allowance for doubtful accounts by \$29,892.

	2006	2005
Assessments Receivable	\$ 143,521	\$ 166,670
Less: Allowance for Doubtful Assessments	(93,976)	(123,868)
Assessments Receivable, Net	<u>\$ 49,545</u>	<u>\$ 42,802</u>

5. LOTS HELD FOR RESALE

The Association holds title to approximately 193 lots located within the Community. These lots were received from a developer settlement and foreclosures in prior years. They are recorded at cost and held for resale. Some lots were transferred to LHEUC. As of December 31, 2006 and 2005, the recorded value of the lots held for resale was \$624,344 and \$627,513, respectively. During 2006, the Association sold one lot for a gain of \$54,092, and during 2005, the Association sold 37 lots for a gain of \$763,655. These gains were contributed to replacement reserves during 2006 and 2005. During 2006, the Board of Directors decided to deed 4 lots as common area property.

6. INCOME TAXES

LHEUC generated a tax loss of \$1,958,639 for the year ended December 31, 2006 as a result of the sale of its operations. In addition, LHEUC has available 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. As a result of electing to file a consolidated return with LHEUC, it will be taxed as a corporation and will have to continue to do so until LHEUC 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, 2006 and 2005 (Restated)

6. INCOME TAXES (continued)

The Association has elected to file its 2006 tax return as a regular corporation consolidated with LHEUC. This allows the Association to offset any taxable income it generated against the tax loss generated by LHEUC. The combined net operating loss generated by the consolidated filing is \$1,804,416 which is available to be carried back to 2004 and 2005. Any unused loss can be carried forward 20 years.

Once LHEUC is liquidated, the Association may elect annually to file either as an exempt residential real estate association or as a regular corporation.

The potential income tax benefits resulting from the loss carry-forwards amount to approximately \$900,000 (based on average rates for Federal and State income taxes). The potential benefits have not been recorded due to the uncertainty of actually realizing the benefits in light of the tax status of the Association.

7. SALE OF LAKE HOLIDAY ESTATES UTILITY COMPANY

On December 31, 2006, LHEUC sold all the waste water and water system assets and operations to Aqua Lake Holiday Utilities, Inc. (the purchaser) for \$1,214,088 in cash. The purchaser also assumed responsibility for the Moratorium Lot Fund for \$136,659. See Note 10. \$50,000 of the proceeds of the sale was placed in escrow pending the resolution of the Ogunquit Development, LLC lawsuit against both the Association and LHEUC. See Note 14.

On January 4, 2007, \$1,163,589 was received from the purchaser and was deposited by the Association.

Additionally, the purchaser will pay \$76,000 per year for the next 15 years if documented contingencies are met. The present value of these payments, at 4.9%, is \$794,213. Management expects the necessary number of connections to the purchaser's water and wastewater system will be met each year. However, management cannot determine with complete certainty that the \$76,000 receivable from the purchaser will be earned and collected for each year. This will not be fully determinable for any year until the number of future annual utility connections can be accurately assessed. The number of connections is impacted by outside market conditions that management cannot control.

At December 31, 2005, LHEUC determined that the carrying values of the underlying assets held for sale exceeded their fair value. Consequently, it recorded an impairment loss of \$399,851 which represents the excess of carrying values of the assets over their fair values, less cost to sell. 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.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2006 and 2005 (Restated)

8. LINE OF CREDIT

On September 15, 2006, the Association executed a secured demand credit line deed of trust for \$500,000 to provide short term working capital. Interest accrued at LIBOR Market Index Rate plus 1.65%. The outstanding balance at December 31, 2006 was \$350,179 all of which was paid off with the proceeds from the LHEUC sale. The note was secured by a deed of trust on land owned by the Association

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. Although accumulated funds are generally not available for expenditures for normal operations, however the Association has loaned funds to LHEUC.

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.

During 2006, the Board decided to reset the reserve accounts and to use the proceeds from the sale of the LHEUC operations to fund the reserves, each with its own separate bank account (which occurred in 2007 after the proceeds from the sale were received). During 2006, the Association contributed the capitalization fees of \$193,000, the gain on the sale of one lot in the amount of \$54,092 and special assessments for roads of \$463,601, for a total of \$710,693 contributed to reserves in 2006. The Board decided to maintain the reserve for the clubhouse at \$450,000 and to increase the reserve for the dam to \$262,868.

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 31 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.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005 (Restated)

9. REPLACEMENT RESERVES (Continued)

As of December 31, 2006 and 2005, the Association had designated \$712,868 and \$2,299,671, respectively, for replacement reserves.

	2006	2005
General	\$ -	\$ 1,726,302
Clubhouse	450,000	450,000
Dam	262,868	105,556
Marina	-	17,813
Total	<u>\$ 712,868</u>	<u>\$ 2,299,671</u>

10. MORATORIUM LOT FUND

The LHEUC was subjected to a court ordered moratorium for 427 lots that were unable to be developed until the wastewater treatment facility was expanded. During 2000, the Association and LHEUC 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 \$860 all owners who were paid in full at the end of the moratorium (July 31, 2002) towards the one-time connection fees as the lots are settled. 179 lots were 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 part of the due diligence for the sale of the assets on December 31, 2006, it was determined that the balance of the fund was \$136,659. The purchaser assumed responsibility for this fund. See Note 7 for more information.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2006 and 2005 (Restated)

11. CONTRIBUTIONS IN AID OF CONSTRUCTION

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 Association contributed expanded plant facilities for a cost of \$385,169. Additionally, the water and sewer connection fees were contributed to this account. The depreciation rate was a 3% composite rate. At December 31, 2005, all property and equipment was under contract for sale and as a result these assets were recorded at fair value. As a result, of this, the CIAC was also eliminated. See Note 7.

	2006	2005
Initial Plant - Non-Depreciable	\$ -	\$ 492,349
Plant Expansion - Depreciable	-	385,169
Connection Fees - Depreciable	-	1,689,986
Less: Accumulated Depreciation		(129,540)
Adjusted to fair value	-	(2,437,964)
Contribution in Aid of Construction	\$ -	\$ -

12. PRIOR PERIOD ADJUSTMENT

During 2006, it was determined that "Contributions in aid of construction" should be applied against the accumulated net deficit to offset some of the impact of the impairment loss write-down as these funds were used to fund a portion of these assets. See Note 11.

	As Originally Stated	Adjustment	As Restated
Contributions in aid of construction, net	\$ 2,437,964	\$ (2,437,964)	\$ -
Unappropriated members' equity (deficit)	(1,893,892)	2,437,964	544,072
Net loss	(2,953,965)	2,437,964	(516,001)

13. SPECIAL ASSESSMENT

During 2005, the Association levied a special assessment in the amount of \$355,149. During 2006, the Association levied a special assessment in the amount of \$463,601. The 2006 amount was assessed in monthly payments of \$20.84 per lot. Both special assessments will be used to fund road improvements.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005 (Restated)

14. 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. The Complainant appealed the ruling to the Virginia Supreme Court, and by order dated February 16, 2007, the Virginia Supreme Court dismissed the petition for appeal on the ground that the order appealed was not a final appealable order. It is possible that this appeal will be filed again. Management, who is contesting the case vigorously, believes that the case lacks merit and estimates the likelihood of an unfavorable outcome is remote.

Previous Members of the Board of Directors and certain individual past and present Directors are defendants in a lawsuit charging a wide variety of illegal acts including holding a flawed election for Directors in 2005. This lawsuit has not been concluded and the impact on the Association cannot be determined. Similar accusations have been made regarding the 2006 elections but no lawsuit has been filed as of the report date.

On February 23, 2007 a Lake Holiday owner has made an assertion that the capitalization fees and assessment late fees charged by the Lake Holiday Country Club are uncollectible. The claim states that the late fees and capitalization fees are not authorized by the Deeds of Dedication or by statute. Accordingly, he requests a refund of all late fees paid by Ogunquit Development to Lake Holiday Country Club.

The current Lake Holiday Resale Disclosure Packet issued to all new owners states, "All property transfers require the new owner to complete a Property Acknowledgement Form and make the payment of a capitalization fee of \$2,000." The capitalization fee is assessed for each property ownership transfer. All property that is purchased, sold, or transferred is subject to the capitalization fee. The stated reason for this fee is to maintain and improve common areas and amenities.

The position of the Lake Holiday Board of Directors and Association's legal counsel is that Articles of Incorporation establish Lake Holiday Country Club's authority to impose both capitalization and assessment late fees.

During 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 constructed. The dam does not meet these more stringent requirements; specifically the dam spillway is undersized and needs to be replaced. It is estimated that the construction project to replace the dam spillway could cost \$4,000,000 to \$6,000,000. Funding requirements will have to come from sources other than the replacement reserve.

See Independent Auditor's Report.

LAKE HOLIDAY COUNTRY CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2006 and 2005 (Restated)

15. DISCONTINUED OPERATIONS

On October 21, 2005, the Association determined to no longer operate LHEUC as a continuing operation. The disposal date was December 31, 2006. See Note 7. LHEUC's operating revenues, reported in discontinued operations, for the years ended December 31, 2006 and December 31, 2005, were \$720,708 and \$664,932, respectively. LHEUC's pretax loss, reported in discontinued operations, for the years ended December 31, 2006 and December 31, 2005, was \$536,688 and \$359,212, respectively.

16. CONTRACTS

The Association executed a development agreement with Lake Holiday, LLC 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 will make contributions for certain projects at Lake Holiday.

17. PROFIT SHARING PLAN

The Association adopted a 401(k) pension plan. All employees who work at least 35 hours per week, have attained the age of 18 and have completed three months of service are eligible to participate in the plan, which matches up to 4% of contributions. The plan started in 2006. The Association contributed \$2,264 to the plan for the year ended December 31, 2006.

18. SUBSEQUENT EVENTS

On February 7, 2007, the Association executed a secured promissory note for \$750,000 for the construction of the club house. This note is a construction loan which converts to a term loan on the earlier of the completion of the project or August 2, 2007. Interest accrues at 6.94%. There is a 1% prepayment penalty. The payment terms require monthly interest-only payments until the conversion date. At this time, the note will require monthly payments of interest and principal of \$6,759. The balance outstanding is due and payable on February 2, 2012. The note is secured by a deed of trust on land owned by the Association.

See Independent Auditor's Report.

ADDITIONAL INFORMATION

LAKE HOLIDAY COUNTRY CLUB, INC.**Supplementary Information on Future Major Repairs and Replacements****December 31, 2006****(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, 2006

(UNAUDITED)

The summary on page 21 does not include the following proposed projects:

- Renovations to the existing Clubhouse stated in December 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. Subsequent to the construction of the dam, the Commonwealth of Virginia has adopted more stringent safety requirements. It is estimated that modifications to bring the dam up to current Virginia safety requirements could cost \$4,000,000 to \$6,000,000. 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 of \$500,000.

See Independent Auditor's Report on Additional Information.

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING BALANCE SHEETS

December 31, 2006

	<u>Lake Holiday Country Club, Inc.</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 194,315
Assessments receivable	429,827
Accounts receivable, net	-
Accounts receivable, other	53,771
Due from Aqua Lake Holiday Utilities, Inc.	-
Current maturities of notes receivable	1,163,589
Prepaid expenses	<u>13,661</u>
TOTAL CURRENT ASSETS	<u>\$ 1,855,163</u>
PROPERTY AND EQUIPMENT	
Equipment, net	<u>\$ 136,594</u>
OTHER ASSETS	
Lots held for resale	\$ 624,344
Investment in Lake Holiday Estates Utility Company	150,082
Due from Aqua Lake Holiday Utilities, Inc.	-
Notes receivable (less current maturities)	<u>705,223</u>
TOTAL OTHER ASSETS	<u>\$ 1,479,649</u>
TOTAL ASSETS	<u><u>\$ 3,471,406</u></u>

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

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ 15,596	\$ -	\$ 209,911
-	-	429,827
49,545	-	49,545
15,545	(69,316)	-
1,214,088	-	1,214,088
-	(1,163,589)	-
2,050	-	15,711
<u>\$ 1,296,824</u>	<u>\$ (1,232,905)</u>	<u>\$ 1,919,082</u>
\$ -	\$ -	\$ 136,594
\$ -	\$ -	\$ 624,344
-	(150,082)	-
794,213	-	794,213
-	(705,223)	-
<u>\$ 794,213</u>	<u>\$ (855,305)</u>	<u>\$ 1,418,557</u>
<u>\$ 2,091,037</u>	<u>\$ (2,088,210)</u>	<u>\$ 3,474,233</u>

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING BALANCE SHEETS

December 31, 2006

	<u>Lake Holiday Country Club, Inc.</u>
LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES	
Accounts Payable and accrued expenses	\$ 177,724
Line of credit	350,179
Penalties and interest payable, current	131,555
Prepaid assessments	76,044
Conformance and damage bonds payable	154,000
Accrued interest payable	-
Current maturities of long-term debt	-
TOTAL CURRENT LIABILITIES	<u>\$ 889,502</u>
LONG-TERM LIABILITIES	
Long-term debt (less current maturities)	-
TOTAL LIABILITIES	<u>\$ 889,502</u>
MEMBERS' EQUITY	
Replacement reserves	\$ 712,868
Lake Holiday Country Club contributions	-
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	1,869,036
Accumulated net revenue	-
TOTAL MEMBERS' EQUITY	<u>\$ 2,581,904</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 3,471,406</u></u>

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

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ 14,334	\$ (22,611)	\$ 169,447
-	-	350,179
-	-	131,555
11,104	-	87,148
-	-	154,000
46,710	(46,710)	-
1,163,589	(1,163,589)	-
\$ 1,235,737	\$ (1,232,910)	\$ 892,329
705,223	(705,223)	-
\$ 1,940,960	\$ (1,938,133)	\$ 892,329
\$ -	\$ -	\$ 712,868
1,510,647	(1,510,647)	-
-	-	-
1,000	(1,000)	-
-	-	-
326,830	(326,830)	-
372,700	(372,700)	-
-	-	1,869,036
(2,061,100)	2,061,100	-
\$ 150,077	\$ (150,077)	\$ 2,581,904
\$ 2,091,037	\$ (2,088,210)	\$ 3,474,233

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING STATEMENT OF INCOME
for the year ended December 31, 2006

	<u>Lake Holiday Country Club, Inc.</u>
REVENUE	
Member dues	\$ 1,296,071
Special assessment	463,601
Trash fees	63,509
Capitalization fees	193,000
Boat slip and registration fees	67,868
Interest	65,560
Resale certificates	13,202
Late fees	34,261
Gain on sale of lots	54,092
Other	<u>65,871</u>
TOTAL REVENUE	<u>\$ 2,317,035</u>
OPERATING EXPENSES	
Administrative	\$ 35,423
Annual meeting/elections	2,906
Bad debt	27,238
Dam mapping and recertification	4,823
Depreciation	38,604
Guard service	129,324
Insurance	61,885
Interest	5,436
Legal and audit	321,651
Financial management	53,084
Payroll and related	430,281
Penalties and interest	20,688
Postage, printing, office supplies	77,008
Professional fees	18,416
Property and real estate taxes	25,435
Property repairs and maintenance	53,735
Property supplies	14,364
Road repairs	9,376
Signs	2,651
Trash removal	74,879
Utilities	28,633
Vehicle repairs	31,755
Visitor passes and active tags	<u>2,753</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,470,348</u>

-Continued-

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

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ -	\$ -	\$ 1,296,071
-	-	463,601
-	-	63,509
-	-	193,000
-	-	67,868
-	-	65,560
-	-	13,202
-	-	34,261
-	-	54,092
-	-	65,871
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,317,035</u>
\$ -	\$ -	\$ 35,423
-	-	2,906
-	-	27,238
-	-	4,823
-	-	38,604
-	-	129,324
-	-	61,885
-	-	5,436
-	-	321,651
-	-	53,084
-	-	430,281
-	-	20,688
-	-	77,008
-	-	18,416
-	-	25,435
-	-	53,735
-	-	14,364
-	-	9,376
-	-	2,651
-	-	74,879
-	-	28,633
-	-	31,755
-	-	2,753
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,470,348</u>

KOSITZKA, WICKS AND COMPANY
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING STATEMENT OF INCOME
for the year ended December 31, 2006

	<u>Lake Holiday Country Club, Inc.</u>
INCOME FROM CONTINUING OPERATIONS BEFORE CONTRIBUTION TO RESERVES	\$ 846,687
Contribution to reserves	<u>(710,692)</u>
INCOME FROM CONTINUING OPERATIONS	<u>\$ 135,995</u>
LOSS FROM OPERATION OF DISCONTINUED UTILITY OPERATIONS	
Operating Revenues	<u>\$ -</u>
Expenses	
Administrative	\$ -
Water plant	-
Sewer plant	-
Taxes and licenses	-
Equity in Lake Holiday Estates Utility Company earnings	<u>501,500</u>
Total expenses	<u>\$ 501,500</u>
LOSS FROM DISCONTINUED UTILITY OPERATIONS	\$ (501,500)
Impairment adjustment on sale of operations	<u>-</u>
NET LOSS	<u><u>\$ (365,505)</u></u>

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

Lake Holiday Estates Utility Company	Eliminating Inter-Company Balances	Total
\$ -	\$ -	\$ 846,687
-	-	(710,692)
\$ -	\$ -	\$ 135,995
\$ 720,708	\$ -	\$ 720,708
\$ 645,465	\$ -	\$ 645,465
203,364	-	203,364
379,967	-	379,967
28,600	-	28,600
-	(501,500)	-
\$ 1,257,396	\$ (501,500)	\$ 1,257,396
\$ (536,688)	\$ 501,500	\$ (536,688)
35,188	-	35,188
\$ (501,500)	\$ 501,500	\$ (365,505)

KOSITZKA, WICKS AND COMPANY

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING STATEMENT OF CASH FLOWS
for the year ended December 31, 2006

**Lake Holiday
Country Club, Inc.**

**RECONCILIATION OF NET LOSS TO NET
CASH PROVIDED (USED) BY OPERATIONS**

NET LOSS **\$ (365,505)**

**ADJUSTMENT TO RECONCILE NET LOSS TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Depreciation	38,604
Impairment loss write-down	-
Investment in Lake Holiday Estates Utility Company (Net Loss)	501,500
(Increase) Decrease in Assessments receivable	(152,266)
(Increase) Decrease in Accounts receivable - other	(29,300)
(Increase) Decrease in Prepaid expenses	(5,857)
Increase (Decrease) in Accounts payable	(21,155)
Increase (Decrease) in Penalties and interest	20,687
Increase (Decrease) in Prepaid assessments	(13,668)
Increase (Decrease) in Conformance and damage bonds payable	(39,550)

Net Cash Flows From Operating Activities **\$ (66,510)**

CASH PROVIDED (USED) BY INVESTING ACTIVITIES

Received from Assessments (Reserves)	\$ 656,601
Received from Connection fees	-
Proceeds from Sale of lots	57,260
Contributions to Lake Holiday Estates Utility Company	(316,808)
Disbursed for Reserve expenditures	(728,287)
Disbursed for Purchase of fixed assets	(64,133)

Net Cash Flows from Investing Activities **\$ (395,367)**

-Continued-

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>
\$ (501,500)	\$ 501,500	\$ (365,505)
-	-	38,604
(35,188)	-	(35,188)
-	(501,500)	-
(22,288)	-	(174,554)
-	(12,452)	(41,752)
11,408	-	5,551
27,062	12,452	18,359
-	-	20,687
(7,686)	-	(21,354)
-	-	(39,550)
<u>\$ (528,192)</u>	<u>\$ -</u>	<u>\$ (594,702)</u>
\$ -	\$ -	\$ 656,601
526,856	-	526,856
-	-	57,260
-	316,808	-
-	-	(728,287)
(862,911)	-	(927,044)
<u>\$ (336,055)</u>	<u>\$ 316,808</u>	<u>\$ (414,614)</u>

LAKE HOLIDAY COUNTRY CLUB, INC.

CONSOLIDATING STATEMENT OF CASH FLOWS
for the year ended December 31, 2006

	<u>Lake Holiday Country Club, Inc.</u>
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	
Proceeds from line of credit	\$ 350,179
Contributions from LHCC	-
Loans to Lake Holiday Estates Utility Company	<u>(450,000)</u>
Net Cash Flows From Financing Activities	<u>\$ (99,821)</u>
Net Decrease in Cash and Cash Equivalents	<u>\$ (561,698)</u>
Cash and Cash Equivalents at Beginning of Year	<u>\$ 756,013</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 194,315</u></u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS	
Sale of operating assets	\$ -
Less unpaid at year end	<u>-</u>
Net	<u><u>\$ -</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid	<u><u>\$ 5,436</u></u>
Income taxes paid	<u><u>\$ -</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>
\$ -	\$ -	\$ 350,179
316,808	(316,808)	-
450,000	-	-
<u>\$ 766,808</u>	<u>\$ (316,808)</u>	<u>\$ 350,179</u>
<u>\$ (97,439)</u>	<u>\$ -</u>	<u>\$ (659,137)</u>
<u>\$ 113,035</u>	<u>\$ -</u>	<u>\$ 869,048</u>
<u>\$ 15,596</u>	<u>\$ -</u>	<u>\$ 209,911</u>
<u>\$ 2,008,301</u>	<u>\$ -</u>	<u>\$ 2,008,301</u>
<u>(2,008,301)</u>	<u>-</u>	<u>(2,008,301)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,436</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>