

ALTO LAKES GOLF AND COUNTRY CLUB, INC.

FINANCIAL STATEMENTS

MARCH 31, 2006 AND 2005

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RONNIE L. HEMPHILL, P.C.
Certified Public Accountant

Board of Directors
Alto Lakes Golf and Country Club, Inc.
Alto, New Mexico

We have audited the accompanying balance sheets of Alto Lakes Golf and Country Club, Inc. as of March 31, 2006 and 2005 and the related statements of activity and changes in members' equity and cash flow for the years then ended. These financial statements are the responsibility of the Club's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Alto Lakes Water Corporation is a wholly owned subsidiary of Alto Lakes Golf and Country Club, Inc. Generally accepted accounting principles require that parent companies present consolidated financial statements with majority owned subsidiaries. These financial statements do not reflect consolidated amounts. The summary effects of this departure from generally accepted accounting principles are disclosed in Note G.

In our opinion, except for the effects of the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Alto Lakes Golf and Country Club, Inc. as of March 31, 2006 and 2005, and the results of its activity and its cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 13 to 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Alto Lakes Golf and Country Club, Inc. Such information has been subjected to the auditing procedures applied in the audits 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.

Ronnie L. Hemphill, CPA

May 16, 2006

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
BALANCE SHEETS
March 31, 2006 and 2005

| | 2006 | 2005 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,271,696 | \$ 400,827 |
| Cash restricted for capital expenditures | 152,541 | - |
| Accounts receivable | 2,878,798 | 2,943,756 |
| Less: Allowance for doubtful accounts | (36,737) | (118,688) |
| Merchandise inventory | 61,027 | 46,174 |
| Prepaid expense | 22,773 | 28,022 |
| Other receivables | 450 | 1,311 |
| TOTAL CURRENT ASSETS | 4,350,548 | 3,301,402 |
| LAND, BUILDINGS AND EQUIPMENT | 10,199,798 | 10,036,437 |
| Less: Accumulated depreciation | (3,245,758) | (2,835,023) |
| TOTAL LAND, BUILDINGS AND EQUIPMENT | 6,954,040 | 7,201,414 |
| OTHER ASSETS | | |
| Alto Lakes Water Corporation stock | 769,168 | 769,168 |
| Mortgage receivable | 7,373 | - |
| Deferred expense | - | 26,900 |
| Water rights | 361,093 | 361,093 |
| Liquor license | 70,409 | 70,409 |
| Other intangible assets | 45,754 | 45,754 |
| Less: Accumulated amortization | (7,117) | (4,067) |
| TOTAL OTHER ASSETS | 1,246,680 | 1,269,257 |
| TOTAL ASSETS | \$ 12,551,268 | \$ 11,772,073 |
| LIABILITIES AND MEMBERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt (below) | \$ 177,110 | \$ 206,141 |
| Book cash overdraft | - | 14,696 |
| Accounts payable | 129,562 | 120,307 |
| Accrued interest expense | 7,579 | 3,432 |
| Deferred service charges payable | 231,283 | 225,715 |
| Deferred gross receipts tax | 110,787 | 106,559 |
| Other accrued expense and payables | 47,434 | 28,039 |
| Accrued compensation | 114,994 | 84,956 |
| Accrued payroll taxes | 26,594 | 20,744 |
| Accrued income tax | 1,695 | - |
| Accrued property taxes | 27,679 | 26,260 |
| Deposits | 22,125 | 13,070 |
| TOTAL CURRENT LIABILITIES | 896,842 | 849,919 |
| LONG-TERM DEBT | | |
| Notes payable | 2,038,171 | 2,217,996 |
| Less: Current portion (above) | (149,763) | (180,226) |
| Capital lease payables | 61,347 | 85,044 |
| Less: Current portion (above) | (27,347) | (25,915) |
| TOTAL LONG-TERM DEBT | 1,922,408 | 2,096,899 |
| DEFERRED INCOME AND ASSESSMENTS | 2,405,982 | 2,244,925 |
| MEMBERS' EQUITY | 7,326,036 | 6,580,330 |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | \$ 12,551,268 | \$ 11,772,073 |

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E
21,353
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ALTO LAKES GOLF AND COUNTRY CLUB, INC.
 STATEMENTS OF ACTIVITY AND CHANGES IN MEMBERS' EQUITY
 Years Ended March 31, 2006 and 2005

| | 2006 | 2005 |
|---|---------------------|---------------------|
| REVENUE | | |
| Social dues | \$ 1,036,162 | \$ 371,399 |
| Regular dues | 780,030 | 838,214 |
| Golf department | 463,423 | 500,758 |
| Food and beverage department | 1,216,858 | 1,186,013 |
| Swim and tennis department | 551 | 516 |
| Membership transfer fees | 790,000 | 549,500 |
| Plan submittal fees | 14,099 | 10,526 |
| Lot sales (net) | 125,067 | 175,775 |
| Gain (loss) on sale/disposition of assets | 26,788 | (346) |
| Interest and dividend income | 67,202 | 54,081 |
| Other income | 33,979 | 34,824 |
| TOTAL REVENUE | <u>4,554,159</u> | <u>3,721,260</u> |
| OPERATING EXPENSE | | |
| Golf department | 1,139,739 | 1,116,214 |
| Food and beverage department | 1,458,238 | 1,417,040 |
| Swim and tennis department | 24,231 | 26,960 |
| General and administrative expenses | 921,918 | 790,914 |
| House department expense | 299,656 | 270,443 |
| Fitness department expense | 1,893 | 4,788 |
| Interest expense | 123,442 | 93,474 |
| TOTAL OPERATING EXPENSE | <u>3,969,117</u> | <u>3,719,833</u> |
| EXCESS OF REVENUE OVER OPERATING EXPENSE | <u>585,042</u> | <u>1,427</u> |
| OTHER EXPENSE | | |
| Income tax expense | 1,695 | - |
| Depreciation and amortization expense | 498,335 | 492,121 |
| TOTAL OTHER EXPENSE | <u>500,030</u> | <u>492,121</u> |
| EXCESS OF REVENUE OVER EXPENSES | 85,012 | (490,694) |
| MEMBERS' EQUITY, BEGINNING OF YEAR | 6,580,330 | 6,585,405 |
| MEMBERSHIP ASSESSMENTS | 447,996 | 449,298 |
| MEMBERSHIP SALES AND UPGRADES | <u>212,698</u> | <u>36,321</u> |
| MEMBERS' EQUITY, END OF YEAR | <u>\$ 7,326,036</u> | <u>\$ 6,580,330</u> |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
STATEMENTS OF CASH FLOW
Years Ended March 31, 2006 and 2005

| | 2006 | 2005 |
|--|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Excess of revenue over expenses | \$ 85,012 | \$ (490,694) |
| Noncash items included above: | | |
| Depreciation | 498,335 | 492,121 |
| (Gain) loss on sale of assets | (151,855) | (175,429) |
| (Increase) decrease in: | | |
| Accounts receivable (net) | (16,993) | (442,129) |
| Merchandise inventory | (14,853) | (9,961) |
| Prepaid expense | 5,249 | 8,402 |
| Other receivables | 861 | 5,434 |
| Increase (decrease) in: | | |
| Book cash overdraft | (14,696) | 14,696 |
| Accounts payable | 9,255 | 10,822 |
| Accrued expenses and deferred charges | 72,340 | 106,441 |
| Deposits | 9,055 | 5,005 |
| Deferred dues | 161,057 | 496,885 |
| NET CASH USED BY OPERATING ACTIVITIES | <u>642,767</u> | <u>21,593</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of land, buildings and equipment | (286,212) | (355,075) |
| Deferred expense | 26,900 | (26,900) |
| Sale of assets | 190,156 | 227,583 |
| Notes receivable | (7,373) | 15,000 |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(76,529)</u> | <u>(139,392)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Membership sales and upgrades | 212,698 | 36,321 |
| Membership assessments | 447,996 | 449,298 |
| Debt proceeds | - | 109,483 |
| Long-term debt reduction | (203,522) | (223,544) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>457,172</u> | <u>371,558</u> |
| NET INCREASE (DECREASE) IN CASH | 1,023,410 | 253,759 |
| CASH, BEGINNING OF YEAR | <u>400,827</u> | <u>147,068</u> |
| CASH, END OF YEAR | <u>\$ 1,424,237</u> | <u>\$ 400,827</u> |
| SUPPLEMENTAL DISCLOSURES | | |
| Interest expense | <u>\$ 123,442</u> | <u>\$ 99,260</u> |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Alto Lakes Golf and Country Club, Inc. (the Club) operates a golf country club in Lincoln County, New Mexico. In addition to golf course facilities, the Club also operates a restaurant and provides architectural control services for the benefits of its members.

Basis of Accounting

The financial statements of the Club have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Land, Buildings and Equipment

Land, buildings and equipment are reflected at cost for those items acquired after the membership took control of the Club in 1981. Assets transferred to the Club from the developer in 1981 are recorded at the values assigned to the various asset types received at that time. Buildings and equipment are depreciated over their estimated useful lives using the straight line method. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the respective departmental income. Construction in progress on various projects at the end of the fiscal year is also included in these amounts.

Income Taxes

The Club was originally formed and operated as an Internal Revenue Code Section 501(C)(7) organization, exempt from income tax on its dues and departmental incomes. In January of 1990, the Club's operations and financial records were examined by the Internal Revenue Service. Per a March 26, 1990 letter from the agent conducting the examination, the Internal Revenue Service revoked the exempt status of the Club retroactive to December 27, 1985. The revocation results from the Club engaging in activities of covenant enforcement, architectural control and other functions similar to those of a homeowners' association and not allowable by an exempt social club.

As of March 31, 2006 and 2005, the Club has losses of \$2,796,264 and \$2,875,057 available as an offset to future member and non-member taxable income, respectively. Such losses begin to expire in the year 2012 if not used. These loss carryovers equate to a combined estimated deferred tax asset of \$553,660, which is not reflected on the balance sheet due to the fact that this tax asset is not expected to be realized.

Revenue Recognition

Income from membership dues is recognized over the period to which the dues relate. Dues billed at year end for future periods are reflected on the balance sheet as deferred dues income.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Club considers certificates of deposits with a maturity of twelve months or less to be cash equivalents instead of the generally accepted accounting principle of maturities of three months or less to be cash equivalents. This departure from generally accepted accounting principles does not materially affect these financial statements.

Inventory

Merchandise inventory is reflected at last cost.

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED
Years Ended March 31, 2006 and 2005

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – CASH AND CERTIFICATES OF DEPOSIT

Cash consist of the following:

| | <u>2006</u> | <u>2005</u> |
|--------------------------|--------------------|-------------------|
| Demand Accounts: | | |
| State National Bank | \$ 256,061 | \$ (14,696) |
| State National Bank | 84,900 | 97,356 |
| City Bank | 715,507 | -0- |
| Certificates of deposit: | | |
| State National Bank | 367,091 | -0- |
| City Bank NM | -0- | 101,060 |
| City Bank NM | -0- | 101,060 |
| City Bank NM | -0- | 101,061 |
| Cash on hand | 678 | 290 |
| | <u>\$1,424,237</u> | <u>\$ 386,131</u> |

Reflected in the financial statements as follows:

| | | |
|--|-------------|------------|
| Cash and cash equivalents | \$1,271,696 | \$ 400,827 |
| Cash restricted for capital expenditures | 152,541 | -0- |
| Book cash overdraft (current liability) | -0- | 14,696 |

NOTE C - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|--------------------|
| Land | \$ 958,618 | \$ 939,727 |
| Paving and grounds improvements | 1,860,810 | 1,818,061 |
| Club buildings | 5,459,716 | 5,441,968 |
| Furniture, fixtures and equipment | 666,113 | 643,483 |
| Carts and pro shop fixtures and equipment | 88,671 | 174,721 |
| Machinery and equipment | 794,813 | 661,246 |
| Office furniture and equipment | 239,800 | 231,160 |
| Fitness room equipment | 39,480 | 35,047 |
| Swim and tennis furniture and equipment | 91,777 | 91,027 |
| | <u>10,199,798</u> | <u>10,036,437</u> |
| Less accumulated depreciation | <u>(3,245,758)</u> | <u>(2,835,023)</u> |
| | <u>\$ 6,954,040</u> | <u>\$7,201,414</u> |

NOTE D - LONG-TERM DEBT – NOTES PAYABLE

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Long-term notes payable consist of the following: | | |
| Note payable to Jackie Spencer Morgan, payable in annual payments of \$30,578.36, due on May 1 of each year until paid in full, including interest at an annual rate of two percent, unsecured. . | \$ 59,370 | \$ 88,184 |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS—Continued
Years Ended March 31, 2006 and 2005

NOTE D – LONG-TERM DEBT – NOTES PAYABLE (Continued)

| | <u>2006</u> | <u>2005</u> |
|---|---------------------------------|----------------------------------|
| Note payable to Jackie Spencer Morgan, payable in annual payments of \$3,000 plus interest, due on May 1 of each year until paid in full, at an annual rate of two percent, unsecured . . . | 6,000 | 9,000 |
| Note payable to State National Bank, payable \$21,779 per month, including interest at the Wall Street Journal base rate (floating), currently 7.5%, maturity date is February 16, 2017, secured by Club real estate, and the common stock and water rights of Alto Lakes Water Corporation . . . | 1,972,801 2,217,996 | 2,120,812 2,217,996 |
| Less amount due within one year | (149,763) <u>\$2,068,233</u> | (180,226) <u>\$ 2,037,770</u> |

Maturities of long-term notes payable are as follows:

| <u>Year Ended</u> <u>March 31</u> | <u>Amount</u> |
|--------------------------------------|--------------------|
| 2007 | \$ 149,763 |
| 2008 | 159,462 |
| 2009 | 136,303 |
| 2010 | 146,884 |
| 2011 | 158,287 |
| Thereafter | 1,287,472 |
| | <u>\$2,038,171</u> |

NOTE E - ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade accounts receivable are recorded net of an allowance for expected losses. The allowance for doubtful accounts was decreased by \$81,951 (from \$118,688 to \$36,737) for the year ended March 31, 2006 reflecting current collections and write-offs of accounts previously classified uncollectible.

NOTE F - RELATED PARTY AND CONTINGENCY

On October 23, 1990 the Club purchased the utility business which supplies water, sanitation, and limited sewer services to the Club and the Club's members. The business was incorporated into a wholly owned subsidiary of the Club under the name of Alto Lakes Water Corporation. The Club's investment in the subsidiary is carried under the "Other Assets" caption on the balance sheet which reflects the stock held at cost in the amount of \$769,168. In addition, the Club provides a \$1,500,000 loan guaranty to the subsidiary's bank on a note payable with a balance due at March 31, 2006 of \$1,238,876, such note maturing in 2009.

The Club is billed for utility services at the prescribed and approved rates as established by the New Mexico Public Service Commission. Payments to Alto Lakes Water Corporation for utility services for the years ended March 31, 2006 and 2005 were \$395,364 and \$358,459, respectively. The Club owed the water company \$22,751 at March 31, 2006 and \$18,784 at March 31, 2005 for utility services.

The water company leases from the Club, 113.75 acre feet of water rights for an annual lease amount of \$1.00. The lease term ends April 30, 2011.

Water rights belonging to the water company were pledged as additional collateral on the Club's note and mortgage to State National Bank (see Note D).

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS – Continued
Years Ended March 31, 2006 and 2005

NOTE G - CONSOLIDATION

As discussed in the auditors' report, generally accepted accounting principles require that a wholly owned subsidiary (see Note F) be reported with the parent as consolidated unit. A summary of the consolidated balances at March 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|-------------------|--------------|--------------|
| Assets | \$15,383,167 | \$14,327,295 |
| Liabilities | 6,986,721 | 6,842,694 |
| Equity | 8,396,446 | 7,484,601 |
| Net revenue | 5,220,434 | 4,394,940 |
| Expense | 4,969,283 | 4,628,513 |
| Net income (loss) | 251,151 | (233,573) |

NOTE H - RISK MANAGEMENT

The Club is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Club has obtained insurance through various commercial carriers to minimize any potential loss. The insurance premiums are based on revenues and payroll expenditures, and are not directly related to claims filed.

NOTE I - CONCENTRATIONS OF CREDIT RISK

During the years ended March 31, 2006 and 2005, the Club's bank accounts exceeded FDIC insured amounts by varying amounts at two local banks. At March 31, 2006 and 2005, the amounts in excess of FDIC insured amount were \$1,145,013 and \$211,935, respectively.

NOTE J - DEFINED CONTRIBUTION PLAN

On October 19, 1996, the Board of Directors approved the adoption of a defined contribution plan. The plan consists of a profit sharing plan funded at the discretion of the Club and a 401K salary deferral plan. The Club matches employee 401K contributions by contributing 25 cents for every dollar contributed by employees, but only on the first 3% of compensation contributed. Eligible employees must be at least 21 and have completed 12 months of service of at least 1,000 hours. For the years ended March 31, 2006 and 2005, the Club funded this plan with \$34,465 and \$17,643, respectively, which was allocated among the 43 employees in 2006 and 17 employees in 2005, who were eligible to participate.

NOTE K – CAPITAL LEASES

During the year ended March 31, 2005, the Club acquired golf course equipment, costing \$109,988, by negotiating a capital lease. Assets acquired under this lease are included in the equipment asset amounts and are depreciated accordingly.

Future minimum capital lease payments, including imputed interest of \$4,141, are as follows:

| | | |
|------------------------|------|------------------|
| Years ending March 31, | 2007 | \$ 30,225 |
| | 2008 | 30,225 |
| | 2009 | 5,039 |
| | | <u>\$ 65,488</u> |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
NOTES TO FINANCIAL STATEMENTS – Continued
Years Ended March 31, 2006 and 2005

NOTE L – OPERATING LEASES

The Club leases a copier and a postage machine on long term lease contracts. Future minimum lease payments due over the remaining terms of the leases are:

| | | |
|------------------------|------|------------------|
| Years ending March 31, | 2007 | \$ 23,664 |
| | 2008 | 23,095 |
| | 2009 | 23,095 |
| | 2010 | <u>10,080</u> |
| Total minimum payments | | \$ <u>79,934</u> |

Equipment rental expense for the years ended March 31, 2006 and 2005 were \$25,545 and \$10,695 respectively.

NOTE M – SUBSEQUENT EVENTS

The Club is currently in negotiations for the sale of its wholly owned subsidiary, Alto Lakes Water Corporation, to a newly formed water district. Terms of the sale have not yet been finalized.

SUPPLEMENTARY INFORMATION

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
SCHEDULE OF GOLF DEPARTMENT INCOME
Years Ended March 31, 2006 and 2005

| | 2006 | 2005 |
|----------------------------------|---------------------|---------------------|
| INCOME | | |
| Green fees | \$ 194,469 | \$ 163,685 |
| Cart rental | 150,295 | 128,160 |
| Private cart fees | 104,901 | 111,083 |
| Private cart repair fees | 10,558 | 3,990 |
| Driving range fees | - | 90,840 |
| Pro shop lease | 3,000 | 3,000 |
| Other | 200 | - |
| TOTAL INCOME | 463,423 | 500,758 |
| EXPENSES | | |
| Labor | 486,056 | 464,733 |
| Employee group insurance | 34,733 | 35,149 |
| Employee meals | 14,373 | 13,166 |
| Payroll taxes | 42,057 | 39,124 |
| Education and training | 349 | 1,285 |
| Retirement account funding | 1,645 | 4,963 |
| Interest expense | - | 5,786 |
| Building and grounds maintenance | 7,741 | 10,137 |
| Driving range | 6,323 | 6,704 |
| Dues and subscriptions | 1,603 | 2,163 |
| Equipment fuel | 12,858 | 9,906 |
| Equipment rental | 128 | 3,355 |
| Equipment repairs | 31,003 | 17,729 |
| Fertilizer and chemicals | 28,740 | 33,941 |
| Forest thinning | - | 49,732 |
| Irrigation water | 365,750 | 327,299 |
| Laundry | 2,962 | 1,260 |
| Printing | 1,778 | 1,996 |
| Services purchased | 8,015 | 8,781 |
| Supplies | 17,851 | 13,797 |
| Other tax and license | 50 | 291 |
| Travel | 2,377 | 4,636 |
| Utilities | 51,631 | 43,339 |
| Telephone | 1,279 | 1,451 |
| Special projects | 14,838 | 9,111 |
| Miscellaneous | 5,599 | 6,380 |
| TOTAL EXPENSES | 1,139,739 | 1,116,214 |
| NET LOSS | \$ (676,316) | \$ (615,456) |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
SCHEDULE OF FOOD AND BEVERAGE DEPARTMENT INCOME
Years Ended March 31, 2006 and 2005

| | 2006 | 2005 |
|---------------------------------------|-------------------------|-------------------------|
| INCOME | | |
| Food sales | \$ 877,404 | \$ 865,577 |
| Cost of food sales | 365,913 | 359,370 |
| GROSS PROFIT ON FOOD SALES | 511,491 | 506,207 |
| Beverage sales | 210,188 | 190,654 |
| Cost of beverage sales | 87,444 | 92,438 |
| GROSS PROFIT ON BEVERAGE SALES | 122,744 | 98,216 |
| Unused food minimum | 129,266 | 129,782 |
| TOTAL INCOME | 763,501 | 734,205 |
| EXPENSES | | |
| Labor | 667,650 | 644,178 |
| Employee group insurance | 32,735 | 29,283 |
| Employee meals | 27,710 | 31,220 |
| Taxes - payroll | 87,227 | 83,962 |
| Education and training | 300 | 1,064 |
| Retirement account funding | 2,457 | 7,277 |
| Dues and subscriptions | 123 | 148 |
| Equipment rental | 1,829 | 1,573 |
| Repairs | 12,355 | 10,145 |
| Laundry | 75,606 | 68,042 |
| Member relations | 28,942 | 19,156 |
| Printing | 106 | - |
| Services purchased | 1,769 | 3,293 |
| Supplies | 56,346 | 51,658 |
| Licenses | 1,950 | 600 |
| Telephone | 650 | 1,619 |
| Travel | 234 | 91 |
| Uniforms | 6,892 | 11,923 |
| TOTAL EXPENSES | 1,004,881 | 965,232 |
| NET LOSS | \$ (241,380) | \$ (231,027) |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
SCHEDULE OF SWIM AND TENNIS DEPARTMENT INCOME
Years Ended March 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|--------------------|--------------------|
| INCOME | | |
| Swim fees | \$ 531 | \$ 496 |
| Tennis fees | <u>20</u> | <u>20</u> |
| TOTAL INCOME | <u>551</u> | <u>516</u> |
| EXPENSES | | |
| Labor | 8,409 | 9,867 |
| Payroll taxes | 836 | 1,456 |
| Building and grounds maintenance | 629 | 613 |
| Equipment repairs | 1,048 | 1,056 |
| Chemicals | 1,069 | 988 |
| Services purchased | 1,600 | - |
| Supplies | 915 | 969 |
| Utilities | <u>9,725</u> | <u>12,011</u> |
| TOTAL EXPENSES | <u>24,231</u> | <u>26,960</u> |
| NET LOSS | <u>\$ (23,680)</u> | <u>\$ (26,444)</u> |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
Years Ended March 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|-------------------|
| Labor | \$ 343,240 | \$ 318,692 |
| Employee group insurance | 30,259 | 25,371 |
| Employee meals | 4,629 | 7,807 |
| Payroll taxes | 21,738 | 25,078 |
| Education and training | 120 | 315 |
| Retirement account funding | 30,364 | 5,403 |
| Annual meeting | 33,012 | 31,025 |
| Bad debt expense | (33,236) | 864 |
| Credit card fees | 72,983 | 31,701 |
| Donations | 3,180 | 115 |
| Dues and subscriptions | 4,861 | 4,905 |
| Equipment rental | 23,588 | 10,965 |
| Equipment repairs | 12,330 | 12,714 |
| General insurance | 104,012 | 134,683 |
| Legal and professional | 24,035 | 19,769 |
| Long range planning | 998 | 2,565 |
| Office supplies | 12,992 | 13,647 |
| Postage | 21,082 | 25,218 |
| Member services | 25,587 | 21,415 |
| Printing | 3,585 | 3,428 |
| Lincoln Hills pre-development costs | 98,277 | - |
| Services purchased | 12,210 | 10,185 |
| Supplies | 5,106 | 4,062 |
| Other taxes | 410 | 303 |
| Property taxes | 37,052 | 33,397 |
| Telephone | 13,407 | 24,175 |
| Miscellaneous | 15,768 | 22,628 |
| Travel | 329 | 484 |
| | <u> </u> | <u> </u> |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | \$ 921,918 | \$ 790,914 |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
SCHEDULE OF HOUSE DEPARTMENT EXPENSES
Years Ended March 31, 2006 and 2005

| | 2006 | 2005 |
|----------------------------------|------------|------------|
| Labor | \$ 43,224 | \$ 36,949 |
| Payroll taxes | 2,221 | 1,580 |
| Cleaning contract | 56,400 | 56,100 |
| Employee group insurance | - | 15 |
| Education and training | 130 | - |
| Building and grounds maintenance | 24,805 | 24,087 |
| House decorations | 14,332 | 10,586 |
| Entertainment | 8,025 | 6,051 |
| Equipment repairs | 4,700 | 2,182 |
| Services purchased | 7,651 | 7,332 |
| Supplies | 12,970 | 12,063 |
| Utilities | 125,198 | 112,298 |
| Organic waste removal | - | 1,200 |
| TOTAL HOUSE DEPARTMENT EXPENSES | \$ 299,656 | \$ 270,443 |

ALTO LAKES GOLF AND COUNTRY CLUB, INC.
SCHEDULE OF FITNESS DEPARTMENT EXPENSES
Years Ended March 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|------------------------|------------------------|
| Labor | \$ - | \$ 2,320 |
| Equipment repairs | 1,063 | 1,131 |
| Services purchase | - | 881 |
| Supplies | <u>830</u> | <u>456</u> |
| TOTAL FITNESS DEPARTMENT EXPENSES | <u>\$ 1,893</u> | <u>\$ 4,788</u> |

Alto Lakes Golf & Country Club

1 Country Club Drive P O Box 168

Alto, New Mexico 88312

Phone: 505-336-4231

Fax: 505-336-7094

Email: altolakesgolf@altolakesgolf.com

May 16, 2006

Ronnie L Hemphill, PC, CPA
1035 Mechem Drive
Ruidoso, NM 88345

We are providing this letter in connection with your audit of the balance sheet of Alto Lakes Golf & Country Club, Inc. as of March 31, 2006, and the related statements of activity and changes in fund balances, and cash flows for the period then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Alto Lakes Golf & Country Club, Inc. in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of May 16, 2006, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U. S. generally accepted accounting principles.
2. We have made available to you all –
 - a. Financial records and related data.
 - b. Minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the company involving –
 - a. Management
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the company received in communications for employees, former employees, regulators, or others.
9. The company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
 - b. Guarantees, whether written or oral, under which the company is contingently liable.
11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the company vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
12. There are no:
 - a. Violations or possible violations of laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
13. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged. (If the company has pledged assets, add "except as made known to you.")
14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
15. We approve of all adjusting entries made by you to our trial balances.

No events have occurred subsequent to the balance date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Signature: _____

Title: _____

Jan M. Lee

General Manager