

IN THE SUPERIOR COURT OF RABUN COUNTY
STATE OF GEORGIA

UNITED COMMUNITY BANK,

Plaintiff,

Civil Action

File No. 2012-CV-0315-S

v.

SELAF WATERFALL DEVELOPMENT CO.,
LLC, SELAF WATERFALL COUNTRY
CLUB, LLC, SELAF WATERFALL WATER
AND SEWER, LLC, and SELAF WATERFALL
HOLDING CO., LLC,

Defendants

SECOND REPORT OF THE RECEIVER

Hays Financial Consulting, LLC, the Receiver (the "Receiver") for the property of the Defendants hereby files this Second Report of the Receiver (the "Report") in order to provide information regarding the property, assets, and operations of the Defendants known as the Lake Burton Club ("LBC" and, collectively hereinafter, the "Receivership Estate"). The Receiver was appointed pursuant to an Order of this Court on August 1, 2012 (the "Appointment Order"). This Report will provide summaries of the staffing and payroll issues, a description of the status of insurance matters and a summary of the activities of the Receiver as of September 30, 2012. An accounting for funds prepared by the Receiver as of September 30, 2012, required by the Appointment Order is also attached.

Since the actions of the Receiver are still ongoing, this Report is based upon facts currently known to the Receiver. As additional facts are discovered, the information set forth herein may be determined to be incorrect or, more likely, incomplete and will be corrected and updated in subsequent reports filed or distributed by the Receiver.

Staffing/Payroll

At the time of the entry of the Appointment Order, there were approximately 55 employees; current staffing is approximately 44 employees. All of these employees were previously employees of the Reynolds Companies ("Reynolds") and not the various SELAF entities involved in the LBC development. The need to rehire as employees of LBC caused the Receiver to spend a great deal of time on employee issues and necessitated negotiating a new contract with ADP for the continuing payroll management of the development. Existing management has been retained and has performed well during the receivership.

The Receiver has completed the process of transferring the responsibility for the employees and payroll related functions from Reynolds to the Receivership Estate. Follow-up meetings have been held with employees to insure they have a clear understanding of all payroll and employment issues. This process included placing employees on COBRA insurance coverage to provide employees with the same quality of insurance coverage as they enjoyed under the Reynolds Companies.

Insurance

The Receiver arranged insurance policies remain in place and loss payees have been notified of the new coverage. These policies included property and casualty, liability, and worker compensation insurance. There have been no claims filed since the Receiver was appointed.

Accounting

As of the date of the Receiver's appointment on August 2, 2012, the accounting functions for the club were being performed predominately by Reynolds' personnel at their office in Atlanta. The only functions performed at the LBC location were payroll and accounts payable entry into Reynolds' information systems. The lack of an accounting department on site required that the Receiver re-establish the functions that Reynolds had performed. The point of sale software ("Jonas") is tightly integrated into the operations of the club and for this reason would have been cost prohibitive to change. The Jonas system is utilized to capture restaurant charges, member dues and other purchases and channel the deposit for the sale directly into LBC's bank account. The Receiver determined that the most economical general ledger and reporting software to integrate with Jonas was Peachtree Software. The Receiver has now completed the transfer of

accounting data from the Reynolds' systems and has a properly functioning stand-alone accounting system.

All vendor accounts and records have been reconciled with the information provided by the Reynolds personnel and uploaded to the Peachtree Software. Monthly department budgets were input and are now a part of the general ledger and accessible to department heads to allow for appropriate cost control management. The new accounting processes, balance sheets and operating statement control instituted in the initial takeover are in place and functioning.

The operating statement for the month of September is attached to this report as Exhibit A. During the period, the Receiver requested and received \$240,000 in funding from United Community Bank (the "Lender") . The Receiver reviewed information relevant to the Receivership Estate and the operation of the entities. The Receiver initiated the review and analysis of documents produced for or located by the Receiver including, but not limited to, accounts payable registers, deferred maintenance schedules, physical plant repairs, golf course maintenance requirements and schedules, the off-season staffing requirements, permits, leases, and contractual agreements in existence.

Inventory of Assets

The assets of the Receivership Estate include, but are not limited to, a wastewater and drinking water plant, a full service 18 hole golf course, a 43,754 sq. ft. Athletic Center containing a junior size Olympic swimming pool, sauna, steam room and workout area. This center also includes a golf pro shop, golf cart maintenance facility, and small dining area and kitchen. A full service day spa, 2 indoor tennis courts (14,360 sq. ft.) and membership and real estate sales center are housed in this facility. The separate 18,000 sq. ft. Lodge includes office space, a day care center, a formal dining room, and the service areas required to support the Lodge.

Club Operations

The continued operation of the restaurants, spa and golf facilities are deemed to be critical to the maintenance of the membership and health of the Lake Burton Club.

The Receiver has met with Willmer Engineering, Inc. to review engineering reports produced by the firm in relation to the potential health and safety issues present on the project. The Receiver

continues to monitor the property based on these reports.

The Receiver continues to monitor the process of the Lender becoming the "Trustee" for the bond indenture related to the water and sewer treatment plant. The operator of the water and Waste water treatment plant (Piedmont Water Company) is in the process of applying for a new permit in the name of SELAF Waterfall Water and Sewer, LLC.

The Receiver is evaluating the staffing needs for the winter season and anticipates a reduction in staff and services. Department heads have provided 6 month budgets and are in the process of preparing the 2013 budget.

The Receiver reviewed the departmental budgets for the fall reduction in staff and services plan. Adjustments are being prepared based on Receiver input and further discussions with department heads.

Waterfall Property Owners Association, Inc. (the "POA")

The Receiver has held several meetings with the POA board members and their counsel to discuss the operations, construction issues, and the sale of the property.

The POA pays a number of monthly expenses of the operation of the Property and the Receiver, on behalf of SELAF, continues to reimburse the POA for a portion of those expenses.

The POA expressed a concern regarding the conditions of the roads within the project. A Distressed Pavement Evaluation report dated March 21, 2011 was presented to the Receiver by the counsel for the POA. The Receiver reviewed the report and held a meeting to discuss the concerns with Willmer Engineering, Inc. who drafted the report. The Receiver continues to monitor the status of the road conditions within the project.

The POA brought other construction defects to the attention of the Receiver and these are presently being investigated.

Counsel

The Receiver continues to engage the firm of James Frenzel, P.C. to act as counsel to the Receiver and the law firm has been actively engaged in document and claims review.

Expenses of the Receiver

For the month of September 30, 2012, the Receivership Estate has incurred fees and

expenses of the administration of the Receivership Estate in the amount of \$ 47,274.38. The Receiver intends to seek authority to pay the fees and expenses of the Receivership Professionals pursuant to the Appointment Order in the immediate future.

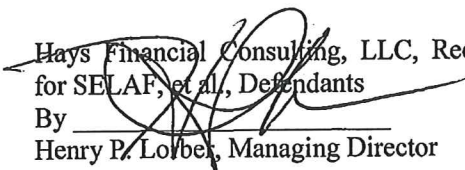
Future Anticipated Activities of the Receiver

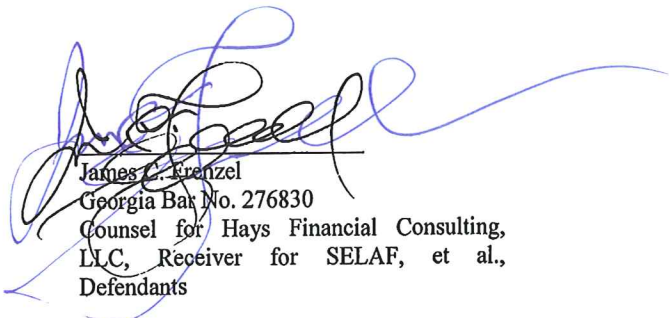
The Receiver presently intends to:

- a) Determine the extent to reduce operations and expenses during the upcoming Fall/Winter seasons;
- b) Conduct an open meeting with members of the LBC and the POA, scheduled for October 28, 2012, to answer questions or concerns regarding the continued operation of the LBC during the course of the Receivership;
- c) Assess the feasibility, requirement for, and cost of repairs and maintenance that may be necessary with regard to the safety and operation of the Property; and
- d) Continue in the performance of the duties of the Receiver pursuant to the Appointment Order entered by this Court.

Respectfully submitted, this 22nd day of October, 2012.

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Hays Financial Consulting, LLC, Receiver
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By 
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SELAF Waterfall Country Club, LLC in Receivership
Income Statement Summary
For the Month Ending September 30, 2012

Revenues	
Pro Shop	\$ 28,965.90
Spa	769.88
Food & Beverage	46,983.56
Admin	<u>1,149.28</u>
Total Revenues	<u>77,868.62</u>
Cost of Sales	
COS - Pro Shop	4,617.89
COS - Food & Beverage	<u>14,991.93</u>
Total Cost of Sales	<u>19,609.82</u>
Gross Profit	<u>58,258.80</u>
Expenses	
Pro Shop	19,055.45
Golf Course Maintenance	81,490.31
Memberships	5,585.46
Spa	6,983.07
Food & Beverage	38,317.79
Administrative	<u>57,549.88</u>
Total Expenses	<u>208,981.96</u>
Net Income/(Loss)	<u><u>(\$ 150,723.16)</u></u>

Note: Depreciation expense is not included in these statements.

SELAF Waterfall Country Club, LLC in Receivership
Income Statement - Pro Shop
For the Month Ending September 30, 2012

Revenues	
Green Fees	\$ 13,737.01
Cart Fees	10,100.49
Club Rental	65.00
Merchandise	5,339.86
Member Discounts	(276.46)
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Total Revenues	28,965.90
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Cost of Sales	
COS - Merchandise	(154.18)
COS - Soft Goods	3,618.87
COS - Hard Goods	337.93
COS - Balls	815.27
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Total Cost of Sales	4,617.89
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Gross Profit	24,348.01
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Expenses	
Salaries & Wages	13,608.17
Payroll Taxes	1,269.07
Employee Benefits - Hlth Insrnc	514.67
Employee Benefits - Dntl Insrnc	33.89
Employee Benefits - Wrkr's Cmp	453.40
Employee Benefits - Othr Insrnc	2.20
Employ Benfts - 401(k) ER Mtch	(12.62)
Cell Phones/PDA	111.36
Electric	650.21
Utilities-Cable	40.09
Cleaning Supplies	57.81
Equipment Lease	2,237.20
Member Relations	90.00
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Total Expenses	19,055.45
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Net Income	\$ 5,292.56
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SELAF Waterfall Country Club, LLC in Receivership
Income Statement - Golf Course Maintenance
For the Month Ending September 30, 2012

Revenues	
Total Revenues	0.00
Cost of Sales	
Total Cost of Sales	0.00
Gross Profit	0.00
Expenses	
Salaries & Wages	\$ 32,737.79
Payroll Taxes	2,572.70
Employee Benefits - Hlth Insrnc	5,117.48
Employee Benefits - Dntl Insrnc	26.84
Employ Benefits - Lif & Disblty	2.84
Employee Benefits - Wrkr's Cmp	770.78
Employee Benefits - Othr Insrnc	3.88
Employ Benfts - 401(k) ER Mtch	(24.14)
Vehicle Expense	(80.00)
Cell Phones/PDA	131.96
Electric	5,153.60
Trash Removal	253.79
Utilities-Gas	233.01
Chemicals	6,439.27
Small Tools	61.28
Seed & Sod	7,935.20
Gas & Oil	3,792.17
Office Supplies	144.45
R&M - Equipment	1,732.54
R&M - Other	124.63
Equipment Lease	14,360.24
Total Expenses	81,490.31
Net Income	\$ (81,490.31)

SELAF Waterfall Country Club, LLC in Receivership
Income Statement - Memberships
For the Month Ending September 30, 2012

Revenues	
Total Revenues	<u>0.00</u>
Cost of Sales	
Total Cost of Sales	<u>0.00</u>
Gross Profit	<u>0.00</u>
Expenses	
SALARIES & WAGES	\$ 2,828.60
Payroll Taxes	200.10
Employee Benefits - Hlth Insrnc	1,109.66
Employee Benefits - Dntl Insrnc	10.66
Employee Benefits - Wrkr's Cmp	45.34
Employ Benfts - 401(k) ER Mch	(5.66)
EQUIPMENT LEASE	129.50
MEMBER RELATIONS	<u>1,267.26</u>
Total Expenses	<u>5,585.46</u>
Net Income	<u><u>\$ (5,585.46)</u></u>

SELAF Waterfall Country Club, LLC in Receivership
Income Statement - Spa
For the Month Ending September 30, 2012

Revenues	
DISCOUNTS	\$ (99.12)
SPA SERVICES	521.40
SPA CONTRACTOR INCOME	347.60
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Total Revenues	769.88
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Cost of Sales	
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Total Cost of Sales	0.00
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Gross Profit	769.88
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Expenses	
SALARIES & WAGES	2,391.82
Payroll Taxes	181.71
Employee Benefits - Hlth Insrnc	414.02
Employee Benefits - Dntl Insrnc	2.96
Employee Benefits - Wrkr's Cmp	90.68
Employ Benfts - 401(k) ER Mtch	(3.44)
OUTSIDE SERVICES	375.00
ELECTRIC	3,450.14
UTILITIES - CABLE	80.18
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Total Expenses	6,983.07
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Net Income	\$ (6,213.19)
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SELAF Waterfall Country Club, LLC in Receivership
Income Statement - Food & Beverage
For the Month Ending September 30, 2012

Revenues	
MEMBER DISCOUNTS	\$ (627.38)
FOOD	26,916.14
BEER	3,572.50
WINE	7,044.50
LIQUOR	2,687.00
ROOM RENTAL	5,250.00
SERVICE CHARGE INCOME	2,140.80
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Total Revenues	46,983.56
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Cost of Sales	
COS - FOOD	9,790.28
COS - BEER	982.61
COS - WINE	2,982.35
COS - LIQUOR	1,236.69
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Total Cost of Sales	14,991.93
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Gross Profit	31,991.63
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Expenses	
SALARIES & WAGES	21,013.27
Payroll Taxes	2,560.31
Employee Benefits - Hlth Insrnc	3,930.31
Employee Benefits - Dntl Insrnc	37.79
Employee Benefits - Wrkr's Cmp	770.78
Employee Benefits - Othr Insrnc	0.58
Employ Benfts - 401(k) ER Mch	(5.26)
OUTSIDE SERVICES	888.75
TRAINING & DEVELOPMENT	9.63
TRAVEL & LODGING	19.98
TELEPHONE	70.00
CELL PHONES/ PDA	103.18
ELECTRIC	2,855.57
UTILITIES - CABLE	328.73
TRASH REMOVAL	253.80
CLEANING SUPPLIES	234.54
DECORATIONS	34.90
LINENS AND LAUNDRY	343.86
RESTAURANT SUPPLIES	90.54
KITCHEN SUPPLIES	290.64
PAPER PRODUCTS	365.06
R&M OTHER	340.27
EQUIPMENT LEASE	3,445.76
EMPLOYEE MEALS	334.80
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Total Expenses	38,317.79
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Net Income	\$ (6,326.16)
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SELAF Waterfall Country Club, LLC in Receivership
Income Statement - Admin
For the Month Ending September 30, 2012

Revenues	
LATE CHARGES (DUES)	\$ 1,149.28
Total Revenues	1,149.28
Cost of Sales	
Total Cost of Sales	0.00
Gross Profit	1,149.28
Expenses	
SALARIES & WAGES	19,193.83
Payroll Taxes	1,471.50
Employee Benefits - Hlth Insrnc	3,047.37
Employee Benefits - Dntl Insrnc	22.60
Employee Benefits - Wrkr's Cmp	362.52
Employee Benefits - Othr Insrnc	1.68
Employ Benfts - 401(k) ER Mch	(8.24)
TRAINING & DEVELOPMENT	12.84
MEALS & ENTERTAINMENT	114.82
VEHICLE EXPENSE	(100.00)
LEGAL FEES	5,102.95
ACCOUNTING & TAX	326.00
RENT	2,500.00
TELEPHONE	1,212.41
CELL PHONES/ PDA	54.47
INTERNET	194.98
WATER/SEWER	583.32
ELECTRIC	1,539.31
UTILITIES - CABLE	72.16
LANDSCAPING	1,235.85
CLEANING SUPPLIES	221.79
OFFICE SUPPLIES	55.49
OFFICE EQUIPMENT	757.13
POSTAGE & FREIGHT	55.39
COMPUTER SUPPORT & SUPPLIES	2,331.56
PRINTING	505.58
R&M EQUIPMENT	545.69
R&M OTHER	37.73
EQUIPMENT LEASE	161.23
DUES & SUBSCRIPTIONS	36.91
INTEREST EXPENSE	392.78
Other Lease Fees	172.75
BANK SERVICE CHARGES	390.08

CREDIT CARD CHARGES	774.56
INSURANCE	8,972.82
REAL ESTATE TAXES	<u>5,198.02</u>
Total Expenses	<u>57,549.88</u>
Net Income	<u><u>(\$ 56,400.60)</u></u>
