Financial Statements

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION AND SUBSIDIARY

FOR THE YEAR ENDED DECEMBER 31, 2019 AND INDEPENDENT AUDITORS' REPORT

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION
AND
SUBSIDIARY

FOR THE YEAR ENDED DECEMBER 31, 2019

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Leone,
McDonnell
& Roberts
PROFESSIONAL ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS
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To the Board of Directors of
The Mountain Club on Loon Unit Owners' Association and Subsidiary
Lincoln, New Hampshire

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of The Mountain Club on Loon Unit Owners' Association and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of revenue and expenses, changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Mountain Club on Loon Unit Owners' Association and Subsidiary as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Spa Revenue and Expenses, Schedule of Hotel Revenue and Expenses, and Schedule of Restaurant Operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on page 20 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Leone, McDonnell & Roberts
Professional Association

June 24, 2020
Wolfeboro, New Hampshire

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2019

	Operating Fund	Room Furnishing Replacement Reserve Fund	Major Common Area Reserve Fund	Spa Reserve Fund	Land, Building and Equipment Fund	Total All Funds
ASSETS						
Cash and cash equivalents	$ 128,684	$ -	$ 1,931,386	$ 53,114	$ -	$ 2,113,184
Accounts receivable, net of allowance for doubtful accounts of $12,649	129,354	-	-	-	-	129,354
Owner assessments receivable, net of allowance for doubtful accounts of $113,695	-	123,554	-	-	-	123,554
Spa inventory	15,509	-	-	-	-	15,509
Prepaid expenses	89,896	-	-	-	-	89,896
Deferred tax asset	-	11,137	103,416	-	-	114,553
Property and equipment	199,344	7,786,199	5,655,358	1,040,765	3,737,446	18,419,112
Less: accumulated depreciation	(199,344)	(4,518,624)	(2,257,354)	(465,408)	(2,403,261)	(9,843,991)
Total	$ 363,443	$ 3,402,266	$ 5,432,806	$ 628,471	$ 1,334,185	$ 11,161,171
LIABILITIES AND FUND BALANCES						
Accounts payable	$ 224,700	$ -	$ -	$ -	$ -	$ 224,700
Accrued expenses	477,626	-	-	-	-	477,626
Advance deposits	314,844	-	-	-	-	314,844
Due to White Pine Hospitality, LLC d/b/a Seasons on Loon & Black Diamond Bar & Grill	38,533	-	-	-	-	38,533
Deferred revenue	155,356	-	-	-	-	155,356
Due to participating unit owners	56,798	-	-	-	-	56,798
Gift certificates	103,323	-	-	-	-	103,323
Advances from unit owners	717,542	-	-	-	-	717,542
Notes payable, net of deferred financing costs	-	-	3,813,665	-	-	3,813,665
Deferred tax liability	-	-	-	30,237	5,493	35,730
Total liabilities	2,088,722	-	3,813,665	30,237	5,493	5,938,117
Fund balance (deficiency)	(1,725,279)	3,402,266	1,619,141	598,234	1,328,692	5,223,054
Total	$ 363,443	$ 3,402,266	$ 5,432,806	$ 628,471	$ 1,334,185	$ 11,161,171

See Notes to Consolidated Financial Statements

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Room Furnishing Replacement Reserve Fund	Major Common Area Reserve Fund	Spa Reserve Fund	Land, Building and Equipment Fund	Total All Funds
REVENUE						
Owner assessments	$ 1,331,440	$ 341,114	$ 591,932	$ 70,229	$ -	$ 2,334,715
Spa operations	28,049	-	-	-	-	28,049
Hotel operations	135,083	-	-	-	-	135,083
Rental loss - restaurant required lease adjustment	(76,161)	-	-	-	-	(76,161)
Core area lease to Hotel	206,000	-	-	-	-	206,000
Rental income - restaurant	72,000	-	-	-	-	72,000
Interest	83	-	7,847	-	-	7,930
Other	38,409	-	-	-	-	38,409
Total revenue	1,734,903	341,114	599,779	70,229	-	2,746,025
EXPENSES						
Payroll and related expenses	709,468	-	-	-	-	709,468
Utilities	285,770	-	-	-	-	285,770
Interest	5,650	-	180,618	-	-	186,268
Repairs and maintenance	124,000	-	-	-	-	124,000
Insurance	84,384	-	-	-	-	84,384
Guest supplies and services	52,402	-	-	-	-	52,402
Housekeeping fees	45,000	-	-	-	-	45,000
Cable television and radio	41,606	-	-	-	-	41,606
Legal and accounting	36,401	-	-	-	-	36,401
Meetings	21,054	-	-	-	-	21,054
Property taxes	20,733	-	-	-	-	20,733
Travel and entertainment	20,333	-	-	-	-	20,333
Bad debts	11,530	-	-	-	-	11,530
Printing and stationary	8,674	-	-	-	-	8,674
Telephone & postage	5,343	-	-	-	-	5,343
Employee recruitment and relations	3,625	-	-	-	-	3,625
Federal and state income taxes (credit)	-	109,105	(3,931)	(2,279)	3,570	106,465
Other	127,027	-	-	-	-	127,027
Total expenses	1,603,000	109,105	176,687	(2,279)	3,570	1,890,083
EXCESS OF REVENUE OVER EXPENSES BEFORE DEPRECIATION EXPENSE	131,903	232,009	423,092	72,508	(3,570)	855,942
LESS DEPRECIATION	-	304,542	254,817	42,615	67,989	669,963
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 131,903	$ (72,533)	$ 168,275	$ 29,893	$ (71,559)	$ 185,979

See Notes to Consolidated Financial Statements

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Room Furnishing Replacement Reserve Fund	Major Common Area Reserve Fund	Spa Reserve Fund	Land, Building and Equipment Fund	Total All Funds
FUND BALANCES (DEFICIENCY) - BEGINNING OF YEAR	$ (1,527,757)	$ 3,270,182	$ 1,291,369	$ 620,079	$ 1,383,202	$ 5,037,075
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	131,903	(72,533)	168,275	29,893	(71,559)	185,979
TRANSFERS BETWEEN FUNDS	(329,425)	204,617	159,497	(51,738)	17,049	-
FUND BALANCES (DEFICIENCY) - END OF YEAR	$ (1,725,279)	$ 3,402,266	$ 1,619,141	$ 598,234	$ 1,328,692	$ 5,223,054

See Notes to Consolidated Financial Statements

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Room Furnishing Replacement Reserve Fund	Major Common Area Reserve Fund	Spa Reserve Fund	Land, Building and Equipment Fund	Total All Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Excss (deficiency) of revenue over expenses	$ 131,903	$ (72,533)	$ 168,275	$ 29,893	$ (71,559)	$ 185,979
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash from operating activities:						
Deferred taxes	-	109,105	(3,931)	(2,279)	3,570	106,465
Depreciation and amortization	-	304,542	262,242	42,615	81,813	691,212
Allowance for bad debts	(1,066)	9,999	-	-	-	8,933
(Increase) decrease in assets:						
Accounts receivable	109,285	-	-	-	-	109,285
Owner assessments receivable	-	(5,138)	-	-	-	(5,138)
Spa inventory	2,079	-	-	-	-	2,079
Prepaid expenses	11,711	-	-	-	-	11,711
Increase (decrease) in liabilities:						
Accounts payable	(34,237)	-	-	-	-	(34,237)
Accrued expenses	56,915	-	-	-	-	56,915
Advance deposits	(59,606)	-	-	-	-	(59,606)
Due to White Pine Hospitality, LLC	33,362	-	-	-	-	33,362
Deferred revenue	(2,313)	-	-	-	-	(2,313)
Advances from unit owners	(56,743)	-	-	-	-	(56,743)
Gift certificates	31,418	-	-	-	-	31,418
NET CASH PROVIDED BY OPERATING ACTIVITIES	222,708	345,975	426,586	70,229	13,824	1,079,322
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of equipment and real property	-	(550,592)	(147,958)	(18,418)	(30,873)	(747,841)
NET CASH USED IN INVESTING ACTIVITIES	-	(550,592)	(147,958)	(18,418)	(30,873)	(747,841)
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of long term debt	-	-	(269,540)	-	-	(269,540)
Net repayments on demand note payable	(200,000)	-	-	-	-	(200,000)
Interfund transfers	(329,425)	204,617	159,497	(51,738)	17,049	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(529,425)	204,617	(110,043)	(51,738)	17,049	(469,540)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(306,717)	-	168,585	73	-	(138,059)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	435,401	-	1,762,801	53,041	-	2,251,243
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 128,684	$ -	$ 1,931,386	$ 53,114	$ -	$ 2,113,184
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION						
Cash paid during the year for interest	$ 5,650	$ -	$ 173,193	$ -	$ -	$ 178,843

See Notes to Consolidated Financial Statements

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Mountain Club on Loon Unit Owners' Association (the Association) and its wholly owned subsidiary, Mon-Club Management, Inc. All material intercompany accounts and transactions have been eliminated.

Organizational Purpose

The Association was started in December of 1986 to provide, care for and maintain the condominium units and common areas of The Mountain Club on Loon for the benefit of the unit owners. The Mountain Club on Loon consists of individual condominium units located in Lincoln, New Hampshire. Ownership of the condominium units is on the quartership basis, under which individual owners purchase one or more individual one-quarter interests in a condominium unit of The Mountain Club on Loon. For the year ended December 31, 2019, there were 468 quartership units.

The Mountain Club on Loon has historically operated as a hotel. Most unit owners place their units in a rental (booking) program to be used by guests as if they were hotel rooms, typically reserving for themselves limited, personal use. Effective January 1, 1996, the Association became the on-site booking agent for participating unit owners. The Association retained an independent management company to manage the Association and perform the day-to-day operations of the rental program, in effect undertaking customary hotel operational duties.

Effective May 1, 2001, a wholly owned subsidiary, Mon-Club Management, Inc. was established to assume all of the management responsibilities previously provided by the independent management company.

Other Events

The impact of the novel coronavirus ("COVID-19") and measures to prevent its spread are affecting the Association's business. The significance of the impact of these disruptions, including the extent of their adverse impact on the Association's financial and operational results, will be dictated by the length of time that such disruptions continue and, in turn, will depend on the currently unknowable duration of the COVID-19 pandemic and the impact of governmental regulations that might be imposed in response to the pandemic. The Association's business could also be impacted should the disruptions from COVID-19 lead to changes in consumer behavior. The COVID-19 impact on the capital markets could also impact the Association's cost of borrowing. There are certain limitations on the Association's ability to mitigate the adverse financial impact of these items. COVID-19 also makes it more challenging for management to estimate future performance of the businesses, particularly over the near to medium term.

AGENCY RELATIONSHIPS

Restaurant Operations

The Association owns common property that includes restaurant facilities. During the year ended December 31, 2019, the Association (landlord) contracted with an independent management company (tenant) for the provision of the restaurant services. Under the terms of the agreements, the tenant is required to pay the Association a base rental fee of $6,000 per month for the use of the facilities. Total rent paid to the Association for the year ended December 31, 2019 was $72,000.

In addition, Mon-Club Management charges the management company for accounting services, marketing and advertising services, laundry services and repairs and maintenance fees. These accounting charges amounted to $36,000 for the year ended December 31, 2019, the marketing and advertising fees amounted to $36,000 for the year ended December 31, 2019, the laundry fees amounted to $921 for the year ended December 31, 2019 and the repairs and maintenance fees aggregated $24,000 for the year ended December 31, 2019.

Also, per the terms of the agreement, rent paid by the management company for managing the restaurant must be adjusted for any profits or losses realized by the restaurant. If gross revenues exceed deductions, then the tenant shall pay the landlord such excess amounts as additional rent.

If deductions exceed gross revenues, then the landlord shall at its option (i) credit the difference between the deductions and the gross revenues against future month's base rent due or (ii) pay to tenant such difference.

For the year ended December 31, 2019, the restaurant realized a loss of $76,161 This amount has been recorded as a loss in the accompanying consolidated statement of revenue and expenses.

In addition, as of December 31, 2019, the Association owed White Pine Hospitality, LLC (the tenant) $38,533.

Accounting Method

The financial statements of the Association have been prepared and the books are maintained on the accrual method of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when they are incurred.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105-10, Generally Accepted Accounting Principles ("GAAP") established the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Codification became effective for fiscal years ended on or after September 15, 2009. The guidance did not have an impact on the Association's financial position, results of operations or cash flows. References made to FASB guidance have been updated for the Codification throughout these financial statements.

Fund Accounting
To ensure observance of limitations and restrictions placed on the use of resources available to the Association, the accounts of the Association are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities and fund balances of the Association are reported in five self-balancing fund groups as follows:

Operating Fund
The operating fund includes unrestricted resources and represents the portion of expendable funds that are available for support of the Association's operations.

Room Furnishing Replacement Reserve Fund
The room furnishing replacement reserve fund represents resources restricted by the condominium documents for the purpose of room furnishing replacements.

Major Common Area Reserve Fund
The major common area reserve fund represents resources restricted by the condominium documents for the purpose of property replacements and improvements of the common areas.

Spa Reserve Fund
The Spa reserve fund represents resources restricted by the condominium documents for the purpose of property replacements and improvements and equipment acquisitions for the spa.

Land, Building and Equipment Fund
The land, building and equipment fund represents resources restricted for land, building and equipment acquisitions and funds expended for land building and equipment.

Income Taxes
The Association has adopted Accounting Standards Codification Topic 740 as it relates to *"Accounting for Income Taxes"*, which requires the use of the liability method of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based upon the temporary timing differences between the basis of assets and liabilities for financial reporting and income tax purposes, using enacted income tax rates in effect for the year in which the differences are expected to reverse.

Current income taxes are based upon the year's taxable income for United States and New Hampshire income tax reporting purposes.

The Association has adopted Accounting Standards Codification Topic 740 as it relates to *"Accounting for Income Taxes."* The topic clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Association's tax returns. The Association's tax filings are subject to audit by various taxing authorities. The Association's open audit periods are 2016-2018. In evaluating the Association's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Association believes their estimates are appropriate based on current facts and circumstances.

Owner Assessment Revenue Recognition

Revenue consists of assessments of the unit owners, which is based on estimates of the amounts of common expenses expected to be incurred during the year.

The revenue from assessments is recorded in the period over which the services are to be provided. The assessments are billed quarterly and are payable on the first day of the first month of the quarter. The amounts collected prior to December 31st from the quarterly billing for the next fiscal year are reflected as advances from unit owners on the accompanying balance sheet.

Common Expenses and Profits

The quarter-share owners are liable for the common expenses and common deficits and are entitled to common profits of the Association in proportion to their number of votes in the Association.

The Board of Directors may either distribute the common profits to the quarter-share owners in proportion to the number of votes in the Association, or apply the common profits to the following year's expenses, or add the common profits to the reserves maintained as described in the Declaration of Condominium and the Association's by-laws.

Property, Equipment and Depreciation

Uses of current and other funds for land, building and equipment acquisitions are accounted for as transfers to the appropriate fund. Costs for maintenance and repairs are charged against operations. Renewals and betterments which materially extend the life of the assets are capitalized. Property and equipment is recorded at cost.

Depreciation is computed using accelerated and straight line methods over the estimated useful lives of the related assets as follows:

Buildings	39 years
Building improvements	15 - 39 years
Spa equipment	5 - 10 years
Furniture, fixtures and equipment	5 - 7 years

Depreciation expense aggregated $683,787 for the year ended December 31, 2019.

At December 31, 2019, the balance of equipment reflected in the Operating Fund consisted of the following:

Computer equipment	$ 140,949
Vehicles	58,395
	$ 199,344

At December 31, 2019, the balance of equipment reflected in the Room Furnishing Replacement Reserve Fund consisted of the following:

Rooms, furnishings and appliances	$ 7,071,393
Computer hardware and software	155,059
Doors and windows	136,072
Electronic key locks	122,163
Televisions	85,268
Model room, furnishings and appliances	78,707
Telephone system	69,869
Carpeting	36,720
Vacuums	23,915
Blinds	7,033
	$ 7,786,199

At December 31, 2019, the balance of real property reflected in the Major Common Area Reserve Fund consisted of the following:

Buildings and improvements	$ 2,942,440
Garage and improvements	2,350,277
Furniture, fixtures and equipment	350,641
Construction in progress	12,000
	$ 5,655,358

At December 31, 2019, the balance of equipment reflected in the Spa Reserve Fund consisted of the following:

Spa remodel and improvements	$ 852,715
Spa and fitness equipment	188,050
	$ 1,040,765

At December 31, 2019, the balance of real property and equipment reflected in the Land, Building and Equipment Fund consisted of the following:

Land	$ 85,032
Buildings	1,214,455
Building improvements	1,141,176
Furniture, fixtures and equipment	982,177
Spa equipment	139,193
Greenhouse	90,413
Kinsman Meeting Room	85,000
	$ 3,737,446

Advertising Costs

The Association's policy is to expense advertising and marketing costs as they are incurred. Total advertising and marketing costs for the year ended December 31, 2019 aggregated $129,963.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents are included in cash. The Association considers all instruments with an original maturity date of three months or less to be cash equivalents.

Accounts Receivable and Bad Debts

The Association uses the allowance method of accounting for bad debts which recognizes bad debt expense at the time the account is considered to be potentially worthless. As of December 31, 2019, management has estimated that $126,344 of accounts receivable and owner assessments could potentially be uncollectible.

During the year ended December 31, 2019, the Association wrote off $13,060 of accounts receivable.

Inventory

Inventory consists of spa products held for re-sale and is stated at the lower of cost (determined on a first-in, first-out method) or realizable value.

Revenue

The Association is required to collect, on behalf of the State of New Hampshire, sales tax based on 9% of most gross sales. The Association's policy is to exclude sales taxes from revenue when collected and expenses when paid and instead, record the collection and payment of sales taxes through a liability account.

2. PROPERTY TAXES

For the year ended December 31, 2019, the unit owners were billed directly by the Town of Lincoln, New Hampshire for property taxes. Property taxes for common areas are billed to the Association and are included in the consolidated statement of revenue and expenses. These consisted of the following:

Core building area	$ 10,991
Spa	6,867
Parking garage	4,794
Other	2,784
Total	$ 25,436

The Association also paid property taxes of $4,703 on the restaurant facility for the year ended December 31, 2019.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Association to a concentration of credit risk consist primarily of cash and equivalents and accounts receivable.

The Association maintains cash accounts in various financial institutions. The balances were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2019, cash balances exceeded the FDIC limits by approximately $1,756,239.

With regards to accounts receivable, the Association grants credit to customers and owners, substantially all of whom are within the New England area. Management constantly monitors its customers and owners for credit worthiness.

4. DEFERRED REVENUE

Deferred revenue reported in the operating fund consists of membership fees paid in advance by users of the Spa. The net operations of the Spa are shown as revenue or expense in the operating fund.

5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for normal operations.

During the year ended December 31, 2011, Criterium Turner Engineers, on behalf of the Board of Directors of the Association, conducted a study to estimate the remaining useful lives and the replacement costs of the components of the property. The table included in the supplementary information on future major repairs and replacements is based on the study performed during the year ended December 31, 2011 (See Supplemental Schedule 4).

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the study performed during the year ended December 31, 2011 and the estimates developed in that study of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement for the room furnishing reserve, common area reserve and Spa reserve of $341,114, $591,932 and $70,229, respectively, has been included in the 2019 assessment.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of the property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

6. DEMAND NOTE PAYABLE

The Association has available to it a line of credit with a bank that expires during October of 2020. Maximum available credit is $280,000. Interest is stated at 4.00%. Interest is payable monthly. Principal is due on demand or upon expiration, unless extended in writing by the bank. The note is secured by a certificate of deposit. At December 31, 2019, there was no balance outstanding on this demand note payable.

7. NOTES PAYABLE

The notes payable at December 31, 2019 consisted of the following:

4.75% note payable to a bank in monthly installments for principal and interest of $34,548 through February 2021 when all interest and outstanding principal will be due. The note is collateralized by a first mortgage on land and improvements, a first lien on all business assets and the assignment of leases and rents.	$ 3,763,181
5.25% note payable to a bank in monthly installments for principal and interest of $3,709 through August of 2021 when all interest and outstanding principal will be due. The note is collateralized by the assignment of leases, rents and revenues.	70,916
Total long-term debt before unamortized deferred financing costs	3,834,097
Unamortized deferred financing costs	(20,432)
Total	$ 3,813,665

The scheduled maturities of long term debt at December 31, 2019 were as follows:

Year Ending December 31	Amount Due
2020	$ 280,187
2021	3,553,910
	$ 3,834,097

8. CASH RESERVE FUNDS

At December 31, 2019 total year-end cash reserves were $1,984,500 in the Room Furnishing Replacement, Major Common Area, and Spa Reserve Fund.

9. CORE AREA LEASE

During the year ended December 31, 2000, the Association purchased core area facilities from Loon Mountain Recreation Corporation. Simultaneously, with the closing, the parties executed a lease, whereby Loon Mountain Recreation Corporation leased a portion of the core area back from the Association for an annual base rent of one dollar. The term of the lease runs until Loon Mountain Recreation Corporation no longer uses the facilities in connection with its snow making or related maintenance operations.

During the year ended December 31, 2019, the Mountain Club on Loon Unit Owners' Association leased facilities to Mon-Club Management, Inc. (the Hotel) for the use of the core area facilities. The purpose of the lease was to allocate expenses of the Association to the Hotel for use of the common facilities and staff of the Association. The cost of the lease to the Hotel and income to the association is $206,000.

Also, per the terms of the agreement, fees paid to the Association for managing the Hotel must be adjusted for any profits or losses realized by the Hotel. If revenues exceed expenses, the excess is due to the Association. If expenses exceed revenues, the Association must reimburse the management company.

For the year ended December 31, 2019, the Hotel reported a profit of $135,083. Accordingly, this amount has been recorded as an increase in revenue in the accompanying consolidated statement of revenue and expenses.

10. INCOME TAXES

For the year ended December 31, 2019, the Association has elected to be taxed under Internal Revenue Code Section 277, whereby the Association is liable for taxes on its non-membership income.

The components of the income tax provision (credit) for the year ended December 31, 2019 were as follows:

Current Tax	
Federal	$ -
State	-
Total current tax	-
Deferred Tax	
Federal	67,576
State	38,889
Total deferred tax	106,465
Total income tax provision (credit)	$ 106,465

The components of the deferred tax liability as of December 31, 2019 consisted of the following:

Temporary Differences	State	Federal	Total
Book to tax depreciation	$ 177,942	$ 310,101	
Tax rate	7.70 %	21 %	
Deferred tax asset (liability)	$ 13,702	$ 65,121	$ 78,823

The deferred taxes are related to differences in depreciation methods for additional bonus depreciation and Section 179 limits allowed for federal and state tax purposes which could be adjusted by the taxing authorities.

11. SUBSEQUENT EVENTS

Events occurring after the consolidated balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements.

The Association closed all services to the public beginning on March 17, 2020 in response to the COVID-19 pandemic. The Association reopened to the unit owners on June 5, 2020 and to the public on June 19, 2020, but only at 50% capacity to non-unit owner guests. The Association laid off all non-essential personnel at the time of the closing.

Subsequent to closing, the Association applied for and was awarded a Paycheck Protection Program loan administered by the Small Business Administration in the amount of $864,500. Under the terms of the loan agreement, provided the funds are used to cover certain eligible costs over the loan period, all or some of the loan may be forgiven. As of the date of these financial statements, the amount, if any, of loan forgiveness is not available.
Management has evaluated subsequent events through June 24, 2020 the date at which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report)

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION AND SUBSIDIARY

SCHEDULE OF SPA REVENUE AND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2019

REVENUE	
Massage	$ 380,587
Memberships	290,416
Vending and retail	100,022
Services	93,104
Other	97,541
Total revenue	961,670
Cost of goods sold	(98,965)
Net revenue	862,705
EXPENSES	
Payroll and related expenses	441,038
Massage and spa services	246,005
Repairs and maintenance	58,236
Linen and laundry	30,434
Pool supplies	23,100
Supplies	17,410
Computer and support	8,761
Telephone and postage	3,233
Uniforms	523
Other	5,916
Total expenses	834,656
EXCESS OF REVENUE OVER EXPENSES	$ 28,049

Schedule Two

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION AND SUBSIDIARY

SCHEDULE OF HOTEL REVENUE AND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2019

REVENUE	
Room and condominium rentals	$ 3,424,966
Component income	466,198
Maid service	126,635
Allocation income	96,000
Total revenue	4,113,799
EXPENSES	
Payroll and related expenses	1,296,675
Leases	206,000
Marketing	129,963
Commissions	109,809
Cleaning supplies	84,907
Repairs and maintenance	83,196
Linen and laundry expenses, net of recoveries	56,161
Utilities	31,752
Travel and entertainment	29,725
Insurance	28,128
Computer support	25,472
Dues and publications	25,116
Radio and television	18,713
Data processing	17,924
Printing and stationary	16,634
Depreciation	13,824
Telephone and postage	10,158
Guest supplies and services	9,367
New Hampshire Business Enterprise tax	4,690
Reservation expense	4,460
Legal and accounting	4,045
Employee recruitment and relations	3,625
Fireplace fuel	2,624
Bad debt expense	1,530
Other	55,842
Total expenses	2,270,340
EXCESS OF REVENUE OVER EXPENSES BEFORE OWNERS' DISTRIBUTION	1,843,459
OWNERS' DISTRIBUTION	(1,708,376)
EXCESS OF REVENUES OVER EXPENSES	$ 135,083

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION AND SUBSIDIARY

SCHEDULE OF RESTAURANT OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019

SALES	$ 2,891,965
COST OF SALES	1,307,779
GROSS PROFIT	1,584,186
EXPENSES	
Salaries, wages and payroll taxes	972,800
Payroll fees	121,500
Utilities	79,203
Supplies	78,463
Rent	72,000
Licenses and fees	66,873
Group insurance	42,530
Office	40,587
Accounting fees	36,000
Marketing fees	36,000
Repairs and maintenance	35,392
Entertainment	21,520
Owner discounts	17,143
General insurance	10,538
Consultants	6,899
Real estate taxes	4,703
Telephone	2,892
Professional fees	2,509
Advertising	1,874
Other	10,921
Total expenses	1,660,347
EXCESS OF EXPENSES OVER REVENUES	$ (76,161)

THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION AND SUBSIDIARY

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2019
(UNAUDITED)

Criterium Turner Engineers, on behalf of the Board of Directors conducted a study during 2011 to estimate the remaining useful lives and the replacement costs of the components of the property.

The following table is based on the study with subsequent review by the Board of Directors and presents significant information about the components of the property.

	Remaining Estimated Useful Lives (Years)	Estimated Current Replacement Costs	2019 Components Funding Requirement	Fund Balance at 12/31/2019
Spa Reserves				
Drainage	1	$ 580,000	$ 56,632	$ 410,644
Decking, tiling and fencing	2 - 11	120,000	11,717	84,961
Renovations	2 - 5	19,250	1,880	13,629
		$ 719,250	$ 70,229	$ 509,234
Room Reserves:				
Unit renovations	3 - 14	$ 9,593,700	$ 303,162	$ 3,023,736
Hallways	8	910,000	28,756	286,813
Interior doors	1	291,000	9,196	91,717
		$ 10,794,700	$ 341,114	$ 3,402,266
Common Area Reserves:				
Building interior	1 - 14	$ 2,223,650	$ 198,286	$ 542,382
Mechanical systems	1 - 14	1,812,400	161,614	442,072
Other	1 - 2	1,125,000	100,318	274,404
Building exterior	1 - 19	915,695	81,654	223,352
Site	1 - 14	561,391	50,060	136,931
		$ 6,638,136	$ 591,932	$ 1,619,141