

**THE MOUNTAIN CLUB ON LOON UNIT  
OWNERS' ASSOCIATION  
AND SUBSIDIARY**

**FOR THE YEAR ENDED DECEMBER 31, 2020  
AND  
INDEPENDENT AUDITORS' REPORT**



**THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION  
AND  
SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2020**

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To the Board of Directors of  
The Mountain Club on Loon Unit Owners' Association and Subsidiary

## **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, 2020, 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, 2020, and the results of its operations and its cash flows for the year then ended in conformity 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 22 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*

Wolfeboro, New Hampshire  
May 19, 2021

**THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION  
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2020**

	<u>Operating Fund</u>	<u>Room Furnishing Replacement Reserve Fund</u>	<u>Major Common Area Reserve Fund</u>	<u>Spa Reserve Fund</u>	<u>Land, Building and Equipment Fund</u>	<u>Total All Funds</u>
<b><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 31,527	\$ -	\$ 2,144,732	\$ 53,207	\$ -	\$ 2,229,466
Accounts receivable, net of allowance for doubtful accounts of \$15,709	85,912	-	-	-	-	85,912
Owner assessments receivable, net of allowance for doubtful accounts of \$148,695	160,565	41,134	71,372	8,474	-	281,545
Inventory	59,942	-	-	-	-	59,942
Prepaid expenses	113,820	-	-	-	-	113,820
Deferred tax assets	-	9,375	120,345	-	-	129,720
Property and equipment	199,344	8,302,538	5,722,882	1,046,741	3,900,104	19,171,609
Less: accumulated depreciation	<u>(199,344)</u>	<u>(4,840,658)</u>	<u>(2,527,490)</u>	<u>(503,621)</u>	<u>(2,496,196)</u>	<u>(10,567,309)</u>
Total	<u>\$ 451,766</u>	<u>\$ 3,512,389</u>	<u>\$ 5,531,841</u>	<u>\$ 604,801</u>	<u>\$ 1,403,908</u>	<u>\$ 11,504,705</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
Accounts payable	\$ 59,885	\$ -	\$ -	\$ -	\$ -	\$ 59,885
Demand note payable	88,054	-	-	-	-	88,054
Accrued expenses	357,154	-	-	-	-	357,154
Advance deposits	302,041	-	-	-	-	302,041
Deferred revenue	103,186	-	-	-	-	103,186
Due to participating unit owners	56,798	-	-	-	-	56,798
Gift certificates	93,749	-	-	-	-	93,749
Advances from unit owners	376,930	96,562	167,547	19,894	-	660,933
Notes payable, net of deferred financing costs	-	-	3,654,040	-	-	3,654,040
Deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,587</u>	<u>41,486</u>	<u>70,073</u>
Total liabilities	1,437,797	96,562	3,821,587	48,481	41,486	5,445,913
Fund balance (deficiency)	<u>(986,031)</u>	<u>3,415,827</u>	<u>1,710,254</u>	<u>556,320</u>	<u>1,362,422</u>	<u>6,058,792</u>
Total	<u>\$ 451,766</u>	<u>\$ 3,512,389</u>	<u>\$ 5,531,841</u>	<u>\$ 604,801</u>	<u>\$ 1,403,908</u>	<u>\$ 11,504,705</u>

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, 2020**

	<u>Operating Fund</u>	<u>Room Furnishing Replacement Reserve Fund</u>	<u>Major Common Area Reserve Fund</u>	<u>Spa Reserve Fund</u>	<u>Land, Building and Equipment Fund</u>	<u>Total All Funds</u>
<b>REVENUE</b>						
Owner assessments	\$ 1,331,440	\$ 341,114	\$ 591,932	\$ 70,229	\$ -	\$ 2,334,715
Spa operations	(37,731)	-	-	-	-	(37,731)
Hotel operations	979,725	-	-	-	-	979,725
Rental loss - restaurant required lease adjustment	(131,169)	-	-	-	-	(131,169)
Core area lease to Hotel	206,000	-	-	-	-	206,000
Rental income - restaurant	60,000	-	-	-	-	60,000
Interest	39	-	7,392	-	-	7,431
Other	22,279	-	-	-	-	22,279
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	2,430,583	341,114	599,324	70,229	-	3,441,250
<b>EXPENSES</b>						
Payroll and related expenses	800,512	-	-	-	-	800,512
Utilities	248,717	-	-	-	-	248,717
Repairs and maintenance	215,867	-	-	-	-	215,867
Interest	1,341	-	178,941	-	-	180,282
Insurance	96,446	-	-	-	-	96,446
Guest supplies and services	50,198	-	-	-	-	50,198
Legal and accounting	45,243	-	-	-	-	45,243
Housekeeping fees	45,000	-	-	-	-	45,000
Cable television and radio	39,467	-	-	-	-	39,467
Bad debts	35,380	-	-	-	-	35,380
Federal and state income taxes (credit)	7,726	1,763	(16,929)	(1,651)	35,993	26,902
Property taxes	23,209	-	-	-	-	23,209
Travel and entertainment	15,485	-	-	-	-	15,485
Meetings	15,003	-	-	-	-	15,003
Employee recruitment and relations	13,870	-	-	-	-	13,870
Telephone & postage	13,496	-	-	-	-	13,496
Printing and stationary	9,814	-	-	-	-	9,814
Other	13,715	-	-	-	-	13,715
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	1,690,489	1,763	162,012	(1,651)	35,993	1,888,606
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE DEPRECIATION EXPENSE</b>	740,094	339,351	437,312	71,880	(35,993)	1,552,644
<b>LESS DEPRECIATION</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	322,034	270,136	38,213	86,523	716,906
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 740,094	\$ 17,317	\$ 167,176	\$ 33,667	\$ (122,516)	\$ 835,738

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, 2020**

	<u>Operating Fund</u>	<u>Room Furnishing Replacement Reserve Fund</u>	<u>Major Common Area Reserve Fund</u>	<u>Spa Reserve Fund</u>	<u>Land, Building and Equipment Fund</u>	<u>Total All Funds</u>
<b>FUND BALANCES (DEFICIENCY) - BEGINNING OF YEAR</b>	\$ (1,725,279)	\$ 3,402,266	\$ 1,619,141	\$ 598,234	\$ 1,328,692	\$ 5,223,054
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES</b>	740,094	17,317	167,176	33,667	(122,516)	835,738
<b>TRANSFERS BETWEEN FUNDS</b>	<u>(846)</u>	<u>(3,756)</u>	<u>(76,063)</u>	<u>(75,581)</u>	<u>156,246</u>	<u>-</u>
<b>FUND BALANCES (DEFICIENCY) - END OF YEAR</b>	<u>\$ (986,031)</u>	<u>\$ 3,415,827</u>	<u>\$ 1,710,254</u>	<u>\$ 556,320</u>	<u>\$ 1,362,422</u>	<u>\$ 6,058,792</u>

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, 2020**

	<u>Operating Fund</u>	<u>Room Furnishing Replacement Reserve Fund</u>	<u>Major Common Area Reserve Fund</u>	<u>Spa Reserve Fund</u>	<u>Land, Building and Equipment Fund</u>	<u>Total All Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Excess (deficiency) of revenue over expenses	\$ 740,094	\$ 17,317	\$ 167,176	\$ 33,667	\$ (122,516)	\$ 835,738
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash from operating activities:						
Deferred taxes	-	1,762	(16,929)	(1,650)	35,993	19,176
Depreciation and amortization	13,837	322,034	270,136	38,213	86,523	730,743
Allowance for bad debts	23,020	5,114	8,874	1,052	-	38,060
(Increase) decrease in assets:						
Accounts receivable	40,382	-	-	-	-	40,382
Owner assessments receivable	(180,525)	77,306	(80,246)	(9,526)	-	(192,991)
Inventory	(44,433)	-	-	-	-	(44,433)
Prepaid expenses	(39,824)	-	-	-	-	(39,824)
Increase (decrease) in liabilities:						
Accounts payable	(164,815)	-	-	-	-	(164,815)
Accrued expenses	(118,409)	-	-	-	-	(118,409)
Advance deposits	(12,803)	-	-	-	-	(12,803)
Due to White Pine Hospitality, LLC	(38,533)	-	-	-	-	(38,533)
Deferred revenue	(52,170)	-	-	-	-	(52,170)
Advances from unit owners	(340,612)	96,562	167,547	19,894	-	(56,609)
Gift certificates	(9,574)	-	-	-	-	(9,574)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>(184,365)</u>	<u>520,095</u>	<u>516,558</u>	<u>81,650</u>	<u>-</u>	<u>933,938</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of equipment and real property	-	(516,339)	(67,524)	(5,976)	(156,246)	(746,085)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>-</u>	<u>(516,339)</u>	<u>(67,524)</u>	<u>(5,976)</u>	<u>(156,246)</u>	<u>(746,085)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Repayment of long term debt	-	-	(159,625)	-	-	(159,625)
Net borrowing on demand note payable	88,054	-	-	-	-	88,054
Interfund transfers	(846)	(3,756)	(76,063)	(75,581)	156,246	-
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>87,208</u>	<u>(3,756)</u>	<u>(235,688)</u>	<u>(75,581)</u>	<u>156,246</u>	<u>(71,571)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(97,157)	-	213,346	93	-	116,282
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>128,684</u>	<u>-</u>	<u>1,931,386</u>	<u>53,114</u>	<u>-</u>	<u>2,113,184</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 31,527</u>	<u>\$ -</u>	<u>\$ 2,144,732</u>	<u>\$ 53,207</u>	<u>\$ -</u>	<u>\$ 2,229,466</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>						
Cash paid during the year for interest	<u>\$ 1,341</u>	<u>\$ -</u>	<u>\$ 178,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,282</u>

See Notes to Consolidated Financial Statements



**THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION  
AND  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**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, 2020, 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, 2020, the Association (landlord) contracted with an independent management company (tenant) for the provision of the restaurant services. The lease agreement was terminated on October 31, 2020, at which point the Association took over the restaurant operations. Under the terms of the agreement, the tenant was 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, 2020 was \$60,000.

In addition, Mon-Club Management charged the management company for accounting services, marketing and advertising services, laundry services and repairs and maintenance fees. These accounting charges amounted to \$30,000 for the year ended December 31, 2020, the marketing and advertising fees amounted to \$30,000 for the year ended December 31, 2020, the laundry fees amounted to \$1,621 for the year ended December 31, 2020 and the repairs and maintenance fees aggregated \$20,117 for the year ended December 31, 2020.

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, 2020, the restaurant realized a loss of \$131,169 This amount has been recorded as a loss in the accompanying consolidated statement of revenue and expenses.

### **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.

### **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. 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**

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction

amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. Any excess assessments at year end are retained by the Association for use in the succeeding year. The balance of assessments receivable as of December 31, 2020 was \$281,545.

The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control. The allowance for doubtful accounts amounted to \$148,695 at December 31, 2020.

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 31<sup>st</sup> from the quarterly billing for the next fiscal year are reflected as advances from unit owners on the accompanying balance sheet.

### **Contract Liabilities**

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability, advances from unit owners, are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to assessments. During the current year, the Association assessed and received \$660,933 in the replacement fund. The balances of contract liabilities (assessments received in advance-replacement fund) as of end of the year are \$284,003.

### **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 \$716,906 for the year ended December 31, 2020.

At December 31, 2020, the balance of equipment reflected in the Operating Fund consisted of the following:

Computer equipment	\$ 140,949
Vehicles	<u>58,395</u>
	<u>\$ 199,344</u>

At December 31, 2020, the balance of equipment reflected in the Room Furnishing Replacement Reserve Fund consisted of the following:

Rooms, furnishings and appliances	\$ 7,514,794
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
Construction in progress	<u>72,938</u>
	<u>\$ 8,302,538</u>

At December 31, 2020, the balance of real property reflected in the Major Common Area Reserve Fund consisted of the following:

Buildings and improvements	\$ 2,979,950
Garage and improvements	2,350,277
Furniture, fixtures and equipment	373,220
Construction in progress	<u>19,435</u>
	<u>\$ 5,722,882</u>

At December 31, 2020, the balance of equipment reflected in the Spa Reserve Fund consisted of the following:

Spa remodel and improvements	\$ 858,691
Spa and fitness equipment	<u>188,050</u>
	<u>\$ 1,046,741</u>

At December 31, 2020, 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	1,217,913
Furniture, fixtures and equipment	1,068,098
Spa equipment	139,193
Greenhouse	90,413
Kinsman Meeting Room	<u>85,000</u>
	<u>\$ 3,900,104</u>

#### **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, 2020 aggregated \$45,138.

#### **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, 2020, management has estimated that \$164,404 of accounts receivable and owner assessments could potentially be uncollectible.

During the year ended December 31, 2020, the Association wrote off \$38,440 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.

## **Sales Tax**

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.

## **New Accounting Pronouncement**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of January 1, 2020, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2020. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

## **2. INVENTORY**

Inventory at December 31, 2020 consisted of the following:

Food and beverage	\$ 55,539
Spa-related goods	<u>4,403</u>
Total inventory	<u>\$ 59,942</u>

## **3. PROPERTY TAXES**

For the year ended December 31, 2020, 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	\$ 13,064
Spa	7,229
Parking garage	5,047
Other	<u>2,931</u>
Total	<u>\$ 28,271</u>

The Association also paid property taxes of \$5,062 on the restaurant facility for the year ended December 31, 2020.

**4. 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, 2020, cash balances exceeded the FDIC limits by approximately \$1,949,500.

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.

**5. 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.

**6. 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 2020 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.



7. **DEMAND NOTE PAYABLE**

The Association has available to it a line of credit with a bank that expires during October of 2021. 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, 2020, there was a balance of \$88,054 outstanding on this demand note payable.

8. **NOTES PAYABLE**

The notes payable at December 31, 2020 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.	\$ 3,625,733
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.	<u>44,414</u>
Total long-term debt before unamortized deferred financing costs	3,670,147
Unamortized deferred financing costs	<u>(16,107)</u>
Total	<u>\$ 3,654,040</u>

The scheduled maturities of long term debt at December 31, 2020 were as follows:

<b><u>Year Ending December 31</u></b>	<b><u>Amount Due</u></b>
2021	<u>\$ 3,670,147</u>

9. **PAYCHECK PROTECTION PROGRAM LOAN**

During the year ended December 31, 2020, the Association applied for and was awarded a Paycheck Protection Program loan administered by the Small Business Administration (SBA) in the amount of \$894,500. 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. At December 31, 2020, although not yet forgiven by the SBA, the Association has determined that it has met the criteria for full loan forgiveness, and as a result, has recognized the full amount as revenue. The amount is reported as PPP loan forgiveness income on the accompanying Schedule of Hotel Revenue and Expenses.

**10. NEW HAMPSHIRE MAIN STREET GRANT**

During the year ended December 31, 2020, the Association applied for and was awarded a New Hampshire Main Street Grant administered by the State of New Hampshire in the amount of \$350,000. Under the terms of the grant agreement, provided the funds are used to cover certain eligible costs over the loan period, all or some of the loan may be forgiven. At December 31, 2020, although not yet forgiven by the State of New Hampshire, the Association has determined that it has met the criteria for full loan forgiveness, and as a result, has recognized the full amount as revenue. The amount is reported as New Hampshire Main Street Grant income on the accompanying Schedule of Hotel Revenue and Expenses.

**11. CASH RESERVE FUNDS**

At December 31, 2020 total year-end cash reserves were \$2,197,939 in the Room Furnishing Replacement, Major Common Area, and Spa Reserve Fund.

**12. 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, 2020, 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, 2020, the Hotel reported a profit of \$979,725. Accordingly, this amount has been recorded as an increase in revenue in the accompanying consolidated statement of revenue and expenses.

**13. INCOME TAXES**

For the year ended December 31, 2020, 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, 2020 were as follows:

<b>Current Tax</b>		
Federal		\$ -
State		<u>57,032</u>
Total current tax		<u>57,032</u>
<b>Deferred Tax</b>		
Federal		11,549
State		<u>7,627</u>
Total deferred tax		<u>19,176</u>
<b>Total income tax provision</b>		<u>\$ 76,208</u>

The components of the deferred tax liability as of December 31, 2020 consisted of the following:

<b><u>Temporary Differences</u></b>	<b><u>State</u></b>	<b><u>Federal</u></b>	<b><u>Total</u></b>
Book to tax depreciation	\$ 78,891	\$ 255,104	
Tax rate	<u>7.70 %</u>	<u>21 %</u>	
Deferred tax asset	<u>\$ 6,075</u>	<u>\$ 53,572</u>	<u>\$ 59,647</u>

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.

**14. 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.

Subsequent to year-end, the Association applied for and was awarded a second draw Paycheck Protection Program loan in the amount of \$891,663.

On March 1, 2021, the Association refinanced existing debt scheduled to mature in 2021. The note is stated at 4.00% for the first five years. The terms of the note agreement calls for two monthly interest only payments beginning March 14<sup>th</sup>, 2021, followed by 58 monthly principal and interest payments of \$31,842, followed by monthly interest and principal payments in the initial amount of \$31,854 with interest being stated at the Federal Home Loan Bank of Boston 5/20 Amortizing Advance Rate, plus 2.50% with a floor of 4.00%. 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.

Management has evaluated subsequent events through May 19, 2021 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, 2020**

**REVENUE**

Massage	\$ 258,355
Memberships	210,017
Vending and retail	29,040
Services	<u>59,798</u>
 Total revenue	 557,210
Cost of goods sold	<u>(37,754)</u>
 Net revenue	 <u>519,456</u>

**EXPENSES**

Payroll and related expenses	356,737
Massage and spa services	89,412
Repairs and maintenance	52,917
Pool supplies	17,127
Linen and laundry	10,910
Supplies	10,797
Computer and support	8,978
Telephone and postage	2,181
Uniforms	927
Other	<u>7,201</u>
 Total expenses	 <u>557,187</u>

**EXCESS OF EXPENSES OVER REVENUE** \$ (37,731)

**See Independent Auditors' Report**

**THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION  
AND SUBSIDIARY**

**SCHEDULE OF HOTEL REVENUE AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**REVENUE**

Room and condominium rentals	\$ 2,250,206
Component income	305,009
Maid service	112,120
Allocation income	80,117
Bear Essentials store income	6,796
NH Main Street Grant	360,000
PPP loan forgiveness income	894,500
Other	139,261
	<hr/>
Total revenue	4,148,009

**EXPENSES**

Payroll and related expenses	1,199,920
Leases	206,000
Cleaning supplies	80,630
Commissions	71,709
Repairs and maintenance	68,973
State income taxes	57,032
Marketing	45,138
Linen and laundry expenses, net of recoveries	42,041
Insurance	32,149
Computer support	29,158
Utilities	27,635
Dues and publications	19,713
Data processing	17,772
Radio and television	16,914
Travel and entertainment	16,215
Telephone and postage	15,552
Printing and stationary	14,126
Depreciation	13,837
Employee recruitment and relations	9,942
New Hampshire Business Enterprise tax	7,036
Guest supplies and services	4,680
Bad debts	3,060
Legal and accounting	2,808
Fireplace fuel	1,874
Other	44,117
	<hr/>
Total expenses	2,048,031

<b>EXCESS OF REVENUE OVER EXPENSES BEFORE OWNERS' DISTRIBUTION</b>	2,099,978
<b>OWNERS' DISTRIBUTION</b>	<hr/> (1,120,253)
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<hr/> <b>\$ 979,725</b> <hr/>

See Independent Auditors' Report

**THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION  
AND SUBSIDIARY**

**SCHEDULE OF RESTAURANT OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>January thru October</u>	<u>November and December</u>	<u>Total</u>
<b>SALES</b>	\$ 1,377,449	\$ 179,970	\$ 1,557,419
<b>COST OF SALES</b>	<u>613,097</u>	<u>105,199</u>	<u>718,296</u>
<b>GROSS PROFIT</b>	<u>764,352</u>	<u>74,771</u>	<u>839,123</u>
<b>EXPENSES</b>			
Salaries, wages and payroll taxes	465,554	80,309	545,863
Rent	60,000	-	60,000
Supplies	42,017	8,428	50,445
Utilities	43,809	3,825	47,634
Licenses and fees	37,842	2,056	39,898
Group insurance	37,786	-	37,786
Repairs and maintenance	31,608	2,699	34,307
Marketing fees	30,000	398	30,398
Accounting fees	30,000	-	30,000
Office	19,642	5,201	24,843
Entertainment	14,252	1,310	15,562
General insurance	10,067	4,435	14,502
Owner discounts	10,525	2,211	12,736
Real estate taxes	3,974	1,354	5,328
Payroll fees	5,223	-	5,223
Consultants	2,040	-	2,040
Telephone	1,695	-	1,695
Professional fees	1,599	-	1,599
Advertising	329	-	329
Other	<u>8,817</u>	<u>1,287</u>	<u>10,104</u>
Total expenses	<u>856,779</u>	<u>113,513</u>	<u>970,292</u>
<b>EXCESS OF EXPENSES OVER REVENUES</b>	<u>\$ (92,427)</u>	<u>\$ (38,742)</u>	<u>\$ (131,169)</u>

See Independent Auditors' Report



**THE MOUNTAIN CLUB ON LOON UNIT OWNERS' ASSOCIATION  
AND SUBSIDIARY**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2020  
(UNAUDITED)**

Criterion 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.

	<b>Remaining Estimated Useful Lives (Years)</b>	<b>Estimated Current Replacement Costs</b>	<b>2020 Components Funding Requirement</b>	<b>Fund Balance at 12/31/2020</b>
<b>Spa Reserves</b>				
Drainage	1	\$ 580,000	\$ 56,632	\$ 448,614
Decking, tiling and fencing	2 - 11	120,000	11,717	92,817
Renovations	2 - 5	<u>19,250</u>	<u>1,880</u>	<u>14,889</u>
		<u>\$ 719,250</u>	<u>\$ 70,229</u>	<u>\$ 556,320</u>
<b>Room Reserves:</b>				
Unit renovations	3 - 14	\$ 9,593,700	\$ 303,162	\$ 3,035,788
Hallways	8	910,000	28,756	287,956
Interior doors	1	<u>291,000</u>	<u>9,196</u>	<u>92,083</u>
		<u>\$ 10,794,700</u>	<u>\$ 341,114</u>	<u>\$ 3,415,827</u>
<b>Common Area Reserves:</b>				
Building interior	1 - 14	\$ 2,223,650	\$ 198,286	\$ 572,903
Mechanical systems	1 - 14	1,812,400	161,614	466,948
Other	1 - 2	1,125,000	100,318	289,846
Building exterior	1 - 19	915,695	81,654	235,920
Site	1 - 14	<u>561,391</u>	<u>50,060</u>	<u>144,637</u>
		<u>\$ 6,638,136</u>	<u>\$ 591,932</u>	<u>\$ 1,710,254</u>

**See Independent Auditors' Report**