

SKYTOP



LODGE

*My resort for all seasons.™*



# *Annual Report 2022*







*Enjoyment on a  
higher plane.*



Sprawling over 5,500 acres of pristine mountain country, Skytop Lodge offers a retreat like no other. From its magnificent accommodations to its endless list of amenities and activities, it's like stepping back in time to a world of rich, natural beauty and exquisite comfort.

It might be just a few hours from Philadelphia and New York City, but you'll feel like you're worlds away.







Dear Shareholders:

Skytop Lodge is pleased to report that 2022 proved to be a successful year by staying strong to our mission and core values. Our Team are the key drivers in making guests memories and making Skytop Lodge a Grand Destination. Skytop Lodge Corporation exceeded year-over-year profitability by outperforming both top-line growth and bottom-line profitability in comparison to 2021 performance making 2022 one of the best financial years in our history. The leisure market continued to outperform due to our direct marketing efforts. We accomplished year-over-year growth in occupancy, ADR, RevPAR and capture in Food & Beverage. Group business (both social & corporate) saw a resurgence year-over-year demonstrating that our direct sales efforts are proving successful. We are also delighted to inform you that the Board of Directors of Skytop Lodge Corporation elected to declare a \$7.00 per Share Preferred Shareholder Dividend Payment to all Preferred Shareholders of Record as of April 14, 2023 payable on May 15, 2023.

2022 Highlights:

- \$1.84 million in Capital Expense Highlights include:
  - Windsor Dining Room Renovation
  - 11 Premium Guest Room Refurbishments
  - Updated Snow Making Equipment
  - I.T. investments
  - Updated Kitchen Equipment

Our Team Members

Skytop's employees continue to be our most valuable resource. In order to express our appreciation for their dedication and commitment to excellence in hospitality, Skytop hosted several employee appreciation events throughout the year. Staffing shortages continued throughout 2022. Skytop continued our engagement with international labor through the J1 and H2B Program. This strategy remained in place to ensure that both our guests and financial goals were exceeded. These programs were vital to our success in exceeding our guests' expectations.

Our Year-End

Our year-end guest satisfaction score for 2022 was 90.46%, exceeding industry standards by over 14%. We had another successful year in capturing market share with 54% of our guests new to Skytop. We have many exciting plans for 2023 consisting of special theme weekends and holiday events including Summer Beer Fest, our annual Fourth of July Spectacular and our Garden Series dinners. Please check our website for all upcoming events and give us a call to schedule your next visit. Hope to see you soon!

Sincerely yours,

Jeffrey Rudder  
General Manager

Richard L. Price, Jr.  
Chairman of the Board



## SKYTOP LODGE CORPORATION

### OFFICERS

**RICHARD L. PRICE, JR.**  
*CHAIRMAN OF THE BOARD*

**PAUL J. CANEVARI**  
*PRESIDENT*

**TIMOTHY L. SMITH**  
*VICE PRESIDENT*

**JOANN H. HEISEN**  
*TREASURER*

**ALBERT J. PUCCIARELLI**  
*SECRETARY*

### BOARD OF DIRECTORS

**RICHARD B. BERNHARDT**  
BRADLEY BEACH, NJ

**PAUL J. CANEVARI**  
KUNKLETOWN, PA

**JOANN H. HEISEN**  
LONGBOAT KEY, FL

**IAN M. MILLER**  
NEW YORK, NY

**FRANK S. NOFER**  
NORRISTOWN, PA

**RICHARD L. PRICE, JR.**  
SKYTOP, PA

**ALBERT J. PUCCIARELLI**  
RIDGEWOOD, NJ

**TIMOTHY L. SMITH**  
NAPLES, FL

### EXECUTIVE COMMITTEE

**JEFFREY RUDDER**  
*GENERAL MANAGER*

**PATRICIA BEAHAN**  
*CONTROLLER*

**CONNIE L. TATE-SEVERINO**  
*DIRECTOR OF ROOMS*

**JENNIFER NELSON**  
*DIRECTOR OF RECREATION*

**KURT GOCKLEY**  
*DIRECTOR OF FOOD & BEVERAGE*

**DEBRA GRASSO**  
*DIRECTOR OF HUMAN RESOURCES*

**CHRISTY RANALLO**  
*DIRECTOR OF SALES & MARKETING*

**BRIAN STRADER**  
*DIRECTOR OF ENGINEERING*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### SUMMARY

The following table indicates the relationship of financial data, as a percentage to the revenues of Skytop for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Revenue:		
Rooms	48.4%	49.4%
Food and beverage	39.5%	37.9%
Sports and other recreation	8.1%	8.9%
Other operated departments	2.6%	2.8%
Other income	<u>1.4%</u>	<u>1.0%</u>
Total revenue	100.0%	100.0%
Department Expenses:		
Rooms expenses	12.7%	12.3%
Food and beverage expenses	31.2%	30.1%
Sports and recreation	9.1%	8.8%
Other department expenses	2.2%	2.3%
Overhead Expenses:		
Administrative and general	12.7%	15.1%
Advertising and promotion	5.0%	5.0%
Other operating expenses	<u>12.8%</u>	<u>12.0%</u>
<b>Gross operating profit</b>	14.3%	14.4%
Fixed and other charges:		
Fixed charges	4.8%	5.6%
Depreciation, amortization & loss/(gain) on disposal	4.7%	5.8%
PPP loan forgiveness	(6.9)%	(9.3)%
Interest	.9%	1.2%
Provision for income taxes	<u>.2%</u>	<u>.1%</u>
<b>Net income</b>	<u><u>10.6%</u></u>	<u><u>11.0%</u></u>



## BALANCE SHEET ANALYSIS

All amounts are approximate.

Current assets and cash held for property and equipment as of December 31, 2022 were \$6.19 million, an increase of \$319 thousand from the prior year. In 2022 operating cash balances were \$3.69 million and the cash account designated for capital improvements was \$482 thousand. Accounts receivable increased \$800 thousand from groups and higher guest folios at year end. Current liabilities were \$5.3 million, a decrease of \$1.9 million, primarily from the forgiveness of the 2021 PPP (Paycheck Protection Program) note payable. As discussed in Note 6 to the financial statements, the PPP loan from 2021 was forgiven and \$2.0 million has been recognized as loan forgiveness in Other charges section of the income statement. Accounts payable increased from higher business volume, and advance deposits for future stays increased to \$2.54 million.

Cash flow from operations and available credit facilities are Skytop's primary source of liquidity. Net cash provided by operating activities was \$1.75 million in 2022, compared to \$3.18 million in 2021.

Capital expenditures in 2022 were approximately \$1.84 million, and included the Windsor Dining Room refresh, 11 guest suites, ski and snow making upgrades, South Porch steps, various paving and roofing projects, Front Circle landscaping, minor kitchen equipment, vehicles and information technology enhancements. Capital improvements for 2021 were \$1.7 million and included a resort-wide TV system and Wi-fi upgrades, Tree Top course enhancements, vehicle replacement, sofa beds and mattresses in the Cottages, tables for the Windsor Dining Room, Tap Room patio, and other infrastructure improvements. Cash from the Fixed Asset Reserve investment account provided the funding for these expenditures. Projects for 2023 include replacement of the Pine Room and Library Lounge floor, tennis court improvements, guest room upgrades, paving, various infrastructure needs, minor kitchen equipment, vehicles and computer equipment.

Skytop has a note payable for the construction and equipment of the Executive Conference Center, The Inn at Skytop and the employee dormitory and the refurbishment of the guest rooms and other public areas with Fidelity Deposit and Discount Bank (Fidelity) for \$5.03 million at a fixed rate of 4.8% for ten years. The loan matures in 2029. Principal payments on all loans were \$352 thousand for 2022.

Skytop had an available operating line of credit of \$1.5 million with Fidelity at December 31, 2022. Fidelity's credit facility expires June of 2023. The line of credit is used to support resort operations during the off-peak season. There were no outstanding balances on this credit facility at the end of 2022.



## **RESULTS OF OPERATIONS**

### **Revenues:**

Total revenue in 2022 was \$28.9 million, compared to \$23.6 million in 2021, an increase of \$5.3 million or a gain of 22%. The occupancy rate of Skytop was 52.5% for 2022 and 46.9% in 2021. The average revenue per guest for the total hotel was \$370 in 2022 and \$318 in 2021.

Rooms – Total room revenue increased \$2.3 million to \$13.9 million from higher occupancy and room rate. The room rate was \$22 higher than the prior year. Skytop continued to offer various packages throughout the year with or without meals to attract travelers and increased marketing of our outdoor activities. Average revenue per occupied room was \$323 for 2022 and \$301 for 2021.

Food and beverage – Total food and beverage revenue increased \$2.5 million to \$11.4 million in 2022 spread across all outlets. The Banquet department experienced the largest increase of \$1.2 million from group meeting business and weddings in 2022.

Sports – Overall sports and recreation revenue increased \$228 thousand to \$2.3 million. Golf increased \$73 thousand from higher rounds revenue and retail sales. Adventure Center increased \$76 thousand from a strong winter in 2022 and snow tubing in December as well as increased Tree Top revenue. Activities revenue also increased \$80 thousand from increased team building and other miscellaneous activity offerings.

Other departments increased \$93 thousand in 2022. This was from increased flower sales relating to weddings and special events and higher gift shop sales.

Other income increased \$159 thousand from increased employee dorm room rentals and guest room deposits that were forfeited from cancellations or non-usage.

### **Departmental Expenses:**

Overall departmental expenses increased \$3.3 million to \$15.9 million in 2022 from \$12.6 million in 2021. These expenses, as a % of revenue were 55.2% in 2022 and 53.5% in 2021. Payroll and benefits accounted for 32.2% of these costs in 2022 compared to 31.5% in 2021.

Room expenses as a percentage of total revenue were 12.7% for 2022 and 12.3% in 2021. Wage and benefit costs increased as occupancy was higher as well as merit pay raises. Amenities and guest supplies were also affected by increased occupancy. We changed our linens and added to the inventory. Vehicle fuel and repairs also contributed to the increased expenses.

Food and beverage expenses were 31.2% of total revenue in 2022 and 30.1% of total revenue in 2021. Cost of food and beverage product was higher by 1.1% or \$662 thousand in 2022 from increased revenue and costs increases. Food and beverage wages including contract labor were steady at 42.1% of revenue each year. Cleaning, fuel and paper costs experienced inflationary increases, but remained within expected ranges.

Sports and other recreation costs increased \$541 thousand and represented 9.1% of revenue in 2022, compared to 8.8% in 2021. Wages and benefits were 69.9% of department revenue in 2022 compared to 64.6% on 2021, mostly from increased staffing in the Adventure Center for winter sports and Tree Top guides. Expense increases were in golf supplies and chemicals for course improvements and equipment repairs. Entertainment and musicians increased from additional events during the year as well as operating supplies for activities from increased occupancy.

**Other Operating Expenses:**

Administrative and general expenses, including human resources, increased \$54 thousand. Wages and benefits increased \$85 thousand from added positions. Credit card fees, which are approximately 3.2% of revenues annually, increased \$104 thousand. Costs relating to recruiting, H2b employees, employee relations and activities increased by \$78 thousand. Skytop paid a holiday bonus and funded a 401k match in 2022 totaling \$148 thousand. Also, the management team earned an incentive bonus from exceeding profit above budget, however it was lower than in 2021.

Advertising and promotion costs increased \$242 thousand compared to the prior year. Salaries, benefits and commissions for the Sales team were \$138 thousand higher than the prior year as group business increased in 2022. To continue to attract guests to Skytop, social media advertising increased \$65 thousand and creative design related to campaigns increased \$47 thousand.

Repairs and maintenance expenses increased \$515 thousand. Maintenance wages and benefits increased \$165 thousand as there were no internal projects to capitalize the costs into as well as having a full staff for the year. Expenses for landscaping increased \$104 thousand for additional plants and trails and tree maintenance. Kitchen and grounds equipment repairs increased \$74 thousand as we strive to maintain aging equipment. Sewer plant maintenance costs increased \$64 thousand for required improvements and costs relating to vehicle fuel and repair have also increased from pricing increases.

Utilities increased \$343 thousand attributable to higher usage and costs in heating oil and electricity.

Interest expense decreased \$18 thousand from 2021 as we continue to pay down our long-term debt.

**Provision for Income Taxes:**

The provision for income tax is calculated at the federal rate of 21% and the state rate of 9.9%, net of any operating loss carryforward benefits remaining from prior years. The effective tax rate is 2.4% for 2022 and 1.0% for 2021. The change in the effective tax rate is from Skytop's profitability in 2022 and limited use of loss carryforwards allowed by federal and state taxing authorities. In addition, the PPP loan forgiveness is not a taxable item.

# **Skytop Lodge Corporation**

Financial Statements

December 31, 2022 and 2021



# Skytop Lodge Corporation

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## **Independent Auditors' Report**

To the Shareholders and Board of Directors of  
Skytop Lodge Corporation

### **Opinion**

We have audited the financial statements of Skytop Lodge Corporation (Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control–related matters that we identified during the audit.

#### **Other Information Included in the Annual Report**

Management is responsible for the other information included in the annual report. The other information comprises the Letter to Shareholders and Management's Discussion and Analysis of Financial Condition and Results of Operation but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Wilkes-Barre, Pennsylvania  
March 24, 2023



**Skytop Lodge Corporation**

Balance Sheets

December 31, 2022 and 2021

	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 3,690,480	\$ 4,171,067
Accounts receivable, net	1,012,130	273,013
Inventories	548,667	414,276
Other current assets	448,911	483,369
Prepaid income taxes	14,509	54,954
Total current assets	5,714,697	5,396,679
<b>Cash Held for Property and Equipment</b>	482,331	480,964
<b>Operating Lease Right of Use Assets</b>	285,620	414,963
<b>Property and Equipment, Net</b>	19,364,618	18,969,192
<b>Other Assets</b>	17,687	59,487
Total	<u>\$ 25,864,953</u>	<u>\$ 25,321,285</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Current maturities of notes payable	\$ 367,439	\$ 356,037
Current maturities of PPP note payable	-	2,000,000
Current maturities of finance leases	26,355	42,497
Current maturities of operating leases	134,612	129,342
Accounts payable, trade	824,844	747,173
Accrued expenses	1,412,022	1,481,748
Advance deposits	2,537,853	2,470,567
Total current liabilities	5,303,125	7,227,364
<b>Notes Payable</b>	4,655,533	5,014,806
<b>Finance Leases</b>	32,627	58,983
<b>Operating Leases</b>	151,008	285,621
Total liabilities	<u>10,142,293</u>	<u>12,586,774</u>
<b>Shareholders' Equity</b>		
Preferred stock	943,300	943,300
Common stock	9,822	9,822
Additional paid-in capital	191,561	191,561
Retained earnings	14,577,977	11,589,828
Total shareholders' equity	<u>15,722,660</u>	<u>12,734,511</u>
Total	<u>\$ 25,864,953</u>	<u>\$ 25,321,285</u>

See notes to financial statements

**Skytop Lodge Corporation**

## Statements of Operations

Years Ended December 31, 2022 and 2021

	<b>2022</b>	<b>2021</b>
<b>Revenues</b>		
Rooms	\$ 13,974,340	\$ 11,648,718
Food and beverage	11,414,055	8,934,370
Sports and recreation	2,347,464	2,119,861
Other operated departments	743,994	651,301
Other income	401,693	242,511
Total revenues	<u>28,881,546</u>	<u>23,596,761</u>
<b>Departmental Expenses</b>		
Rooms	3,673,823	2,905,229
Food and beverage	9,016,136	7,102,426
Sports and recreation	2,625,635	2,084,452
Other operated departments	645,946	542,208
Total departmental expenses	<u>15,961,540</u>	<u>12,634,315</u>
<b>Other Expenses (Income)</b>		
Overhead:		
Administrative and general	3,398,961	3,345,179
Sales and marketing	1,425,852	1,183,939
Information technology and telecomm	261,823	225,306
Repairs and maintenance	2,533,118	2,018,383
Utilities	1,165,506	822,249
Total overhead	<u>8,785,260</u>	<u>7,595,056</u>
Fixed charges:		
Property taxes	559,928	553,566
Insurance	660,763	628,906
Corporate/shareholder expense	150,149	138,896
Investment expense	5,873	-
Total fixed charges	<u>1,376,713</u>	<u>1,321,368</u>
Depreciation and amortization	<u>1,439,052</u>	<u>1,390,367</u>
PPP loan forgiveness	<u>(2,000,000)</u>	<u>(2,205,800)</u>
Gain on disposal of assets	<u>(63,962)</u>	<u>(26,687)</u>
Total other expenses, net	<u>9,537,063</u>	<u>8,074,304</u>
<b>Income Before Interest Expense and Income Taxes</b>	<u>3,382,943</u>	<u>2,888,142</u>
<b>Interest Expense</b>	<u>258,318</u>	<u>276,561</u>
<b>Income Before Provision for Income Taxes</b>	<u>3,124,625</u>	<u>2,611,581</u>
<b>Provision for Income Taxes</b>	<u>70,445</u>	<u>25,916</u>
<b>Net Income</b>	<u><u>\$ 3,054,180</u></u>	<u><u>\$ 2,585,665</u></u>

See notes to financial statements

**Skytop Lodge Corporation**

Statements of Changes in Shareholders' Equity  
Years Ended December 31, 2022 and 2021

	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total Shareholders' Equity</b>
<b>Balance at December 31, 2020</b>	\$ 943,300	\$ 9,822	\$ 191,561	\$ 9,004,163	\$ 10,148,846
<b>Net Income</b>	-	-	-	2,585,665	2,585,665
<b>Balance at December 31, 2021</b>	943,300	9,822	191,561	11,589,828	12,734,511
<b>Net Income</b>	-	-	-	3,054,180	3,054,180
<b>Dividends Paid</b>	-	-	-	(66,031)	(66,031)
<b>Balance at December 31, 2022</b>	<u>\$ 943,300</u>	<u>\$ 9,822</u>	<u>\$ 191,561</u>	<u>\$ 14,577,977</u>	<u>\$ 15,722,660</u>

Note: Preferred stock, 7%  
cumulative, \$100 par value;  
authorized 12,000 shares,  
issued and outstanding  
9,433 shares

Common stock, \$1 par value;  
authorized 1,000,000 shares,  
issued and outstanding  
9,822 shares

See notes to financial statements



**Skytop Lodge Corporation**

## Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 3,054,180	\$ 2,585,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,439,052	1,390,367
Provision (credit) for bad debts	(4,447)	3,257
Gain on disposal of assets	(63,962)	(26,687)
Amortization of operating lease right-of-use assets	129,343	125,034
PPP loan forgiveness	(2,000,000)	(2,205,800)
Changes in assets and liabilities:		
Accounts receivable	(734,670)	(176,425)
Inventories	(134,391)	(122,864)
Other current assets and prepaid income taxes	74,903	(161,370)
Other assets	41,800	10,621
Accounts payable, trade	77,671	202,189
Accrued expenses	(69,726)	880,998
Operating lease	(129,343)	(125,034)
Advance deposits	67,286	803,669
Net cash provided by operating activities	<u>1,747,696</u>	<u>3,183,620</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(1,836,294)	(1,719,471)
Proceeds from disposal of assets	70,254	117,315
Net cash used in investing activities	<u>(1,766,040)</u>	<u>(1,602,156)</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of notes payable	(352,347)	(335,719)
Repayment of finance lease liability	(42,498)	(70,205)
Proceeds from PPP note payable	-	2,000,000
Dividends paid	(66,031)	-
Net cash (used in) provided by financing activities	<u>(460,876)</u>	<u>1,594,076</u>
<b>Net (Decrease) Increase</b>	<u>(479,220)</u>	<u>3,175,540</u>
<b>Cash and Cash Held for Property and Equipment, Beginning</b>	<u>4,652,031</u>	<u>1,476,491</u>
<b>Cash and Cash Held for Property and Equipment, Ending</b>	<u><u>\$ 4,172,811</u></u>	<u><u>\$ 4,652,031</u></u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Income taxes paid	<u>\$ 30,000</u>	<u>\$ -</u>
Interest paid	<u>\$ 258,318</u>	<u>\$ 276,561</u>

See notes to financial statements

# Skytop Lodge Corporation

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Notes to Financial Statements

December 31, 2022 and 2021

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

Skytop Lodge Corporation (Company) owns and operates a 5,500-acre, 192 room, full service, destination resort in Skytop, Pennsylvania. This is a four-season resort featuring an array of recreational facilities, restaurants and a conference center.

The Company's market is nationwide with particular concentration in the northeast region. The Company's clientele is both social and group. The social markets generally consist of holiday and vacation guests augmented by family reunions, weddings, and weekend packages. Group markets generally consist of business retreats and meetings and product presentations. Various marketing tools such as the Company's website (<http://www.skytop.com>), newsletters, mailings, site familiarization tours, advertising and other means are used to promote the Company.

Because the resort business is highly competitive, the Company continuously invests substantial capital in property improvement and expansion programs.

The Company also periodically divests itself of small amounts of real estate for private noncommercial development.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

### Accounts Receivable

Accounts receivable are reported at net realizable value. Accounts are written off when deemed uncollectible based upon a periodic review of individual accounts. The allowance for doubtful accounts is estimated based upon periodic review of individual accounts. The allowance for doubtful accounts was \$10,000 and \$20,000 at December 31, 2022 and 2021, respectively.

### Inventories

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value.

### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Finance lease right-of-use assets are recorded at an amount equal to the lease liability at commencement plus initial direct costs and are amortized over the shorter of the lease term or the estimated life of the asset. The lease liability is equal to the present value of the minimum lease payments. Amortization of finance lease right-of-use assets is included in depreciation expense.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the estimated fair value of the asset. No impairment was recognized in 2022 and 2021.

## **Skytop Lodge Corporation**

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Notes to Financial Statements

December 31, 2022 and 2021

### **Revenue Recognition**

Revenue consists of amounts derived from hotel operations, including the rental of rooms, food and beverage and other ancillary services (i.e., sports and recreation and other operated departments). Room revenue is a fixed amount based on published rates and is recognized daily as the guest occupies the room. Revenue from food and beverage and other ancillary services is generated when a guest chooses to purchase goods or services separately from a hotel room and revenue is recognized on these distinct goods and services at the point in time that goods or services are provided to the guest. Payment is due in full at the time the services are rendered, or the goods are provided, and are generally paid upon the guest's checkout. If a guest enters into a package including multiple goods or services, the fixed price is allocated to each distinct good or service based on the stand-alone selling price for each item. Certain ancillary services are provided by third parties and the Company assesses whether it is the principal or agent in these arrangements. If the Company is the agent, revenue is recognized based upon the commission earned from the third party. If the Company is the principal, the Company recognizes revenue based upon the gross sales price. Some contracts for rooms or food and beverage services require an upfront deposit which is recorded as advance deposits, a contract liability, in the accompanying balance sheets and recognized as revenue when the Company provides the room, food or beverage or related ancillary service in the following period. Neither type of customer or type of product sale or service significantly impacts the nature, timing or uncertainty of revenue and cash flows.

The Commonwealth of Pennsylvania imposes a sales tax of 6% on all of the Company's sales to nonexempt customers. The County of Monroe, Pennsylvania imposes a hotel occupancy tax of 3% on room sales. The Company collects the sales and hotel occupancy tax from customers and remits the amount to the appropriate taxing body. The Company's accounting policy is to exclude the tax collected and remitted from revenues and expenses.

### **Income Taxes**

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of assets and liabilities. These deferred taxes are measured by the provisions of currently enacted tax laws. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

### **Advertising Costs**

Advertising costs are charged to operations when incurred and amounted to \$472,883 in 2022 and \$365,216 in 2021.

### **Subsequent Events**

Subsequent events have been evaluated for recognition or disclosure through March 24, 2023, the date the financial statements were available to be issued.

## Skytop Lodge Corporation

Notes to Financial Statements  
December 31, 2022 and 2021

### 2. Inventories

Inventories consist of the following at December 31:

	2022	2021
Beverage	\$ 117,360	\$ 128,235
Retail merchandise	198,478	122,319
Food	154,081	121,622
Operating supplies	78,748	42,100
Total	<u>\$ 548,667</u>	<u>\$ 414,276</u>

### 3. Property and Equipment

Property and equipment consist of the following at December 31:

	2022	2021
Land	\$ 624,786	\$ 624,786
Land improvements	8,518,501	8,125,756
Buildings and improvements	27,857,049	27,263,732
Furniture, equipment, and other assets	13,764,397	12,720,150
Finance lease right-of-use assets	128,184	264,967
Construction in progress	274,114	510,904
Total	51,303,814	49,510,295
Less accumulated depreciation	<u>31,939,196</u>	<u>30,541,103</u>
Net	<u>\$ 19,364,618</u>	<u>\$ 18,969,192</u>

Depreciation expense was \$1,434,576 in 2022 and \$1,385,890 in 2021. Accumulated depreciation on assets under finance leases was \$34,849 and \$85,829 at December 31, 2022 and 2021, respectively.

### 4. Line of Credit

The Company has a \$1,500,000 line of credit with Fidelity Deposit and Discount Bank (Fidelity). Interest is charged on borrowings at the bank's prime rate less .50%, with a floor of 4.50%. The line expires June 2023. There were no borrowings at December 31, 2022 and 2021.

## Skytop Lodge Corporation

Notes to Financial Statements  
December 31, 2022 and 2021

### 5. Notes Payable

Notes payable consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
<u>Fidelity</u>		
Term note, due in monthly payments of \$49,344 including interest through June 2034; interest is fixed at 4.80% through June 2029 at which time the parties will negotiate the rate for the remaining five years	\$ 5,039,107	\$ 5,376,917
<u>Ally Bank</u>		
Term note, due in monthly payments of \$840, including interest at 8.54%, maturing April 2024; secured by vehicle	12,586	21,185
Note paid off in 2022	-	5,938
Total	5,051,693	5,404,040
Less deferred financing costs	28,721	33,197
Less current maturities	367,439	356,037
Long-term notes payable	<u>\$ 4,655,533</u>	<u>\$ 5,014,806</u>

The term note and the operating line of credit with Fidelity (Note 4) are secured by substantially all of the Company's property and equipment and require the Company to maintain certain financial covenants.

The Fidelity loan agreements require the Company to deposit 3% of gross revenue each month into a furniture, fixtures and equipment reserve. The reserve was \$482,331 at December 31, 2022 and \$480,964 at December 31, 2021 and is reported as cash held for property and equipment on the accompanying balance sheets.

The scheduled future principal repayments are as follows:

Years ending December 31	
2023	\$ 367,439
2024	378,837
2025	394,062
2026	413,399
2027	433,685
Thereafter	3,064,271
Total	<u>\$ 5,051,693</u>

## Skytop Lodge Corporation

Notes to Financial Statements  
December 31, 2022 and 2021

### 6. PPP Notes Payable

The Company elected to participate in the Payroll Protection Program (PPP), a program administered by the Small Business Administration (SBA) as authorized by the Coronavirus Aid, Relief and Economic Stability Act (CARES Act) and obtained a \$2,205,800 unsecured loan from Fidelity in April 2020. Under the program, the loan was 100% forgivable if the Company met specified requirements. The Company met the specified requirements and its application for forgiveness was accepted by the SBA in June 2021. As such, the \$2,205,800 was recognized as PPP loan forgiveness income in the 2021 statement of operations.

In February 2021, the Company received a \$2,000,000 unsecured loan from Fidelity under a second round of PPP. Similar to the first PPP loan, this loan was 100% forgivable if the Company met specified requirements. The Company met the specified requirements and its application for forgiveness was accepted by the SBA in April 2022. As such, the \$2,000,000 was recognized as PPP loan forgiveness income in the 2022 statement of operations.

The SBA reserves the right to audit any PPP loan for a period of 6 years after date of forgiveness.

### 7. Leases

The Company entered into fixed payment equipment lease agreements that qualify as finance leases due to bargain purchase options. The Company recognized a right-of-use asset (included in property and equipment) and related finance lease liability for these agreements using its incremental borrowing rate of 4%. The weighted average remaining lease term for these finance leases is approximately two years at December 31, 2022 and three years at December 31, 2021.

The future minimum lease payments and the present value of the net minimum lease payments under the terms of finance lease agreements are as follows as of December 31, 2021:

Years ending December 31:	
2023	\$ 28,234
2024	28,234
2025	<u>4,707</u>
Total minimum lease payments	61,175
Less amount representing interest	<u>2,193</u>
Present value of net minimum lease payments	58,982
Less current maturities	<u>26,355</u>
Long-term finance lease liability	<u><u>\$ 32,627</u></u>

Total finance lease cost was \$16,818 in 2022 and \$44,049 in 2021, consisting of interest of \$4,000 in 2022 and \$5,637 in 2021 and depreciation of the right-of-use assets of \$12,818 in 2022 and \$38,412 in 2021. Total payments made for finance leases were \$46,497 in 2022 and \$75,842 in 2021.

The Company also leases equipment under the terms of fixed payment operating leases. The Company recognizes a right-of-use asset and related operating lease liability for these agreements based on the present value of future minimum lease payments.



## Skytop Lodge Corporation

### Notes to Financial Statements

December 31, 2022 and 2021

Total operating lease expense was \$144,182 in 2022 and 2021. There are no variable lease costs. The weighted average remaining lease term for operating leases is approximately two years at December 31, 2022 and three years at December 31, 2021 and the weighted average discount rate is 4% at December 31, 2022 and 2021.

The future minimum lease payments and the present value of the net minimum lease payments under the terms of operating lease agreements are as follows as of December 31, 2021:

Years ending December 31:	
2023	\$ 144,183
2024	119,433
2025	<u>46,622</u>
Total minimum lease payments	310,238
Less amount representing interest	<u>24,618</u>
Present value of net minimum lease payments	285,620
Less current maturities	<u>134,612</u>
Long-term operating lease liability	<u><u>\$ 151,008</u></u>

## 8. Income Taxes

The provision for income taxes is comprised of the following:

	<u>2022</u>	<u>2021</u>
Current	\$ 70,445	\$ 25,916
Deferred	<u>-</u>	<u>-</u>
Total	<u><u>\$ 70,445</u></u>	<u><u>\$ 25,916</u></u>

The reconciliation between the expected statutory income tax provision and the actual provision for income tax is as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Expected provision at statutory rate	\$ 656,171	21.0 %	\$ 548,432	21.0 %
State income taxes	89,220	2.9	32,227	1.2
Valuation allowance	(282,609)	(9.0)	(86,320)	(3.3)
PPP loan forgiveness	(420,000)	(13.4)	(463,218)	(17.7)
Other	<u>27,663</u>	<u>0.9</u>	<u>(5,205)</u>	<u>(0.2)</u>
Actual provision and rate	<u><u>\$ 70,445</u></u>	<u><u>2.4 %</u></u>	<u><u>\$ 25,916</u></u>	<u><u>1.0 %</u></u>

## Skytop Lodge Corporation

Notes to Financial Statements  
December 31, 2022 and 2021

The following temporary differences give rise to deferred tax assets (liabilities) at December 31:

	2022	2021
Accrued leave	\$ 54,201	\$ 65,265
Allowance for doubtful accounts	2,810	5,778
Operating lease liability	80,265	119,892
Other	2,796	2,366
Advance deposits, gift certificates	118,305	107,253
Net operating loss carryforwards	1,052,048	1,237,114
Operating lease right-of-use asset	(80,265)	(119,892)
Property and equipment	(998,328)	(903,335)
Gross deferred tax assets, net	231,832	514,441
Valuation allowance	(231,832)	(514,441)
Net deferred tax asset	\$ -	\$ -

In a prior year, the Company recognized a valuation allowance when it concluded it was more likely than not the Company would not be able to recover its net deferred tax assets. The valuation allowance decreased by \$282,609 in 2022 and \$86,320 in 2021 primarily due to taxable income during those years.

At December 31, 2022, the Company has approximately \$3.1 million of federal and \$4.4 million of Pennsylvania net operating loss carryforwards (NOLs). The federal NOLs do not expire. The Pennsylvania NOLs expire beginning in 2035 if not previously utilized.

### 9. Preferred Stock/Subsequent Event

The Company's 7% cumulative preferred stock may be redeemed in whole or in part at the option of the Board of Directors by paying \$110 per share plus the cumulative preferred stock dividends in arrears to such shares. No shares of 7% cumulative preferred stock were redeemed during 2022 and 2021.

The Company's arrearage in cumulative preferred stock dividends per share was \$238 at December 31, 2022 and 2021. The total arrearage for all shares was \$2,245,034 at December 31, 2022 and 2021.

In 2022, the Company declared and paid a \$7 per share dividend to preferred stockholders totaling \$66,031. There were no preferred dividends declared or paid in 2021.

On March 3, 2023, the Board of Directors declared a \$7 per share dividend to preferred stockholders of record on April 14, 2023, payable May 15, 2023. The dividend totals \$66,031.

### 10. 401(k) Plan Expense

The Company sponsors a defined contribution 401(k) plan and recognized \$101,175 in 2022 and \$77,041 in 2021 of expense related thereto.

**11. Concentrations of Credit Risk**

The Company maintains cash and cash equivalents in various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company generally maintains cash and cash equivalents in banks in excess of the insured limits.

The Company also extends trade credit to customers.

**12. Shareholder Rights Plan**

On December 31, 2019, the Board of Directors declared a distribution of one common share purchase right (Purchase Rights) for each share of the Company's common shares outstanding on December 31, 2019. The Purchase Rights are currently not exercisable but would become exercisable if certain events occurred relating to a person or group (Acquiring Person) acquiring or attempting to acquire 10% or more of the outstanding shares of the Company (Triggering Event). If a Triggering Event occurs, each holder of record, other than the Acquiring Person, would have the right to receive, upon payment of the exercise price (currently defined as \$6,000), that number of shares having a fair value at the time of the transaction equal to two times the exercise price. In lieu of the Company requiring payment of the exercise price in cash upon the exercise of rights, the Company may exchange the rights at a ratio of three shares per right. The Purchase Rights are redeemable at \$0.001 per right payable in shares or cash by the Company prior to the Triggering Event. The Purchase Rights expire on December 31, 2029, unless redeemed or exchanged by the Company earlier. The Company will supply a copy of the Rights Agreement governing the Purchase Rights, which includes a more detailed summary of the Purchase Rights, upon request to any shareholder. The description of the Purchase Rights in this footnote and in the summary is qualified in its entirety by the terms of the Rights Agreement.







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