

SKYTOP



LODGE

My resort for all seasons.™



Annual Report 2023



*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 2023 proved to be a successful year by staying focused on our mission and core values. Our Team continues to be our key drivers in making memorable guest experiences and making Skytop Lodge a Premier Grand Destination. One of the several accolades received in 2023 was the 2023 Historic Hotels of America Best Historic Hotel (76-200 Guest Rooms) which celebrates our history in guest experience and provides exceptional guest hospitality and service. 2023 also proved to be another profitable year. A Key Driver behind our success was exceeding Group Business in both Room Nights as well as Revenue. The Leisure segment did experience challenges over the Summer months, however rebounded strongly within the fourth quarter. Our targeted approach and focusing on the details provide great optimism moving forward in 2024. We are delighted to inform you that our Board of Directors not only elected to declare a 2024 Dividend for Preferred Shareholders, but also approved an additional \$7.00 per share which represents one year of arrears in relation to the previous dividend commitment of the preferred stock of Skytop Lodge Corporation.

2023 Highlights:

- \$2.2 MILLION IN CAPITAL EXPENSE HIGHLIGHTS INCLUDE:
 - 6 PICKLE BALL COURTS
 - PINE ROOM FLOOR REPLACEMENT
 - 26 PREMIUM GUEST ROOM REFURBISHMENTS
 - SKYTOP VEHICLES PURCHASES
 - INFRASTRUCTURE
 - ADDITIONAL I.T. INVESTMENTS

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 2023. Skytop continued our engagement with international labor through the J1 and H2B Programs. 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 2023 was 96.1%, exceeding industry standards by over 18%. We had another successful year in capturing market share with 64% of our guests new to Skytop. We have many exciting plans for 2024 consisting of special theme weekends and holiday events including our traditional Mother's Day Brunch, Summer Beer Fest, our annual Fourth of July Spectacular and our Garden Dinner Series. Please check our website (www.skytop.com) for all upcoming events.

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Revenue:		
Rooms	48.3%	48.4%
Food and beverage	39.2%	39.5%
Sports and other recreation	8.1%	8.1%
Other operated departments	2.7%	2.6%
Other income	<u>1.7%</u>	<u>1.4%</u>
Total revenue	100.0%	100.0%
Department Expenses:		
Rooms expenses	12.5%	12.7%
Food and beverage expenses	31.8%	31.2%
Sports and recreation	9.6%	9.1%
Other department expenses	2.4%	2.2%
Overhead Expenses:		
Administrative and general	11.9%	12.7%
Advertising and promotion	5.6%	5.0%
Other operating expenses	<u>12.4%</u>	<u>12.8%</u>
Gross operating profit	13.8%	14.3%
Fixed and other charges:		
Fixed charges	4.8%	4.8%
Depreciation, amortization & loss/(gain) on disposal	5.3%	4.7%
Employee Retention Credit/PPP loan forgiveness	(7.2)%	(6.9)%
Interest	.8%	.9%
Provision for income taxes	<u>2.2%</u>	<u>.2%</u>
Net income	<u><u>7.9%</u></u>	<u><u>10.6%</u></u>

BALANCE SHEET ANALYSIS

All amounts are approximate.

Current assets and cash held for property and equipment as of December 31, 2023 were \$7.8 million, an increase of \$1.6 million from the prior year. In 2023 operating cash balances were \$5.3 million and the cash account designated for capital improvements was \$488 thousand. Accounts receivable increased \$123 thousand from groups and higher guest folios at year end. Current liabilities were \$5.3 million, which is equal to 2022. However, Income taxes payable increased \$171 thousand primarily from the recognition of employee retention credits applied for and received in 2023. These amounts are taxable to Skytop and are recognized in the Other charges section of the income statement. Advance deposits for future stays decreased \$62 thousand to \$2.48 million.

Cash flow from operations and available credit facilities are Skytop's primary source of liquidity. Net cash provided by operating activities was \$4.17 million in 2023, which includes \$2.1 million in employee retention credits, compared to \$1.75 million in 2022.

Capital expenditures in 2023 were approximately \$2.2 million, and included replacement of the Pine Room and Library Lounge floor, tennis court and pickle ball court improvements, 26 guest room upgrades, paving, grill enclosure at Callaway's and Streamside Lodge improvements, kitchen equipment, vehicles and computer equipment. Capital improvement for 2022 were approximately \$1.84 million and included the Windsor Dining Room, 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. Cash from the Fixed Asset Reserve investment account provided the funding for these expenditures. Projects for 2024 include 24 guest rooms, replacement of the lodge cooling system, conference center carpet, golf course equipment, fitness equipment, point of sale system in the outlets and other information technology enhancements.

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 \$4.68 million at a fixed rate of 4.8% for ten years. The loan matures in 2029. Principal payments on all loans were \$364 thousand for 2023. As discussed in Note 6 to the financial statements, the PPP (Paycheck Protection Program) loan from 2021 was forgiven and recognized as loan forgiveness in Other Expense(Income) section of the income statement in 2022.

Skytop had an available operating line of credit of \$1.5 million with Fidelity at December 31, 2023. Fidelity's credit facility expires August of 2024. 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 2023.

RESULTS OF OPERATIONS

Revenues:

Total revenue in 2023 was \$29.1 million, compared to \$28.9 million in 2022, an increase of \$223 thousand or a gain of .8%. The occupancy rate of Skytop was 50.3% for 2023 and 52.5% in 2022. The average revenue per guest for the total hotel was \$395 in 2023 and \$370 in 2022.

Rooms – Total room revenue increased \$96 thousand to \$14.1 million from higher room rates. The room rate was \$16 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 \$339 for 2023 and \$323 for 2022.

Food and beverage – Total food and beverage revenue remained steady to last year at \$11.4 million. The Windsor Dining room and The Market experienced the largest combined increase of \$91 thousand from a variety of offerings offset with Banquet decreases.

Sports – Overall sports and recreation revenue increased \$10 thousand to \$2.4 million. Golf increased \$79 thousand from higher rounds and retail sales. Activities increased \$37 thousand from theme events, axe throwing and other miscellaneous activity offerings. These increases were offset by lower Adventure Center revenue, specifically Tree Top Course and Outfitters shooting revenue.

Other departments increased \$22 thousand in 2023. This was from higher gift shop sales.

Other income increased \$91 thousand from increased interest income, employee dorm room rentals and guest room deposits that were forfeited from cancellations or non-usage.

Departmental Expenses:

Overall departmental expenses increased \$427 thousand to \$16.4 million in 2023 from \$15.9 million in 2022. These expenses, as a % of revenue were 56.3% in 2023 and 55.2% in 2022. Payroll and benefits accounted for 34.1% of these costs in 2023 compared to 32.2% in 2022.

Room expenses as a percentage of total revenue were 12.5% for 2023 and 12.7% in 2022. Wage and benefit costs remained steady, even though occupancy was slightly lower, from merit pay raises. Expenses relating to the hotel wide TV system, linens and supplies decreased. These savings were offset by increases for upgraded room amenities and vehicle fuel and repairs costs.

Food and beverage expenses were 31.8% of total revenue in 2023 and 31.2% of total revenue in 2022. Cost of food and beverage product was 32.3% of revenue, saving \$146 thousand in 2023 from tighter controls and volume rebates with certain vendors. Food and beverage wages including contract labor were 46.7% of revenue in 2023 and 42.2% in 2022. This increase was a result of additional salary positions and contract labor costs. Operating expenses decreased \$139 thousand from cost savings in cleaning, paper, fuel and complimentary guest costs.

Sports and other recreation costs increased \$172 thousand and represented 9.6% of revenue in 2023, compared to 9.1% in 2022. Wages and benefits were 73.4% of department revenue in 2023 compared to 69.9% in 2022, from increased staffing for the Golf Department and Activities. Expense increases were in golf landscaping and chemicals for course improvements and equipment repairs. Activities themed event costs increased from additional events during the year and pool chemicals and supplies costs were higher.

Other Operating Expenses:

Administrative and general expenses, including human resources, decreased \$208 thousand. Wages and benefits increased \$111 thousand from added positions and merit pay raises. Credit card fees were approximately 2.9% of revenue for both years. Costs relating to training, employee relations and activities increased by \$36 thousand. Professional fees also increased \$58 thousand for several consulting engagements. Skytop paid a holiday bonus and funded a 401k match in 2023 totaling \$168 thousand. The management team did not earn a bonus for 2023 resulting in decreased costs of \$368 thousand compared to 2022.

Sales and marketing costs increased \$212 thousand compared to the prior year. Salaries, benefits and commissions for the Sales team were \$37 thousand higher than the prior year as the internal marketing position was filled during 2023. To continue to attract guests to Skytop, social media advertising increased \$73 thousand and guest rebates offered for multi night stays increased \$103 thousand.

Repairs and maintenance expenses increased \$50 thousand. Maintenance wages and benefits increased \$75 thousand from a full staff for the year and added grounds H2b employees. Expenses for building, painting and plumbing maintenance increased \$61 thousand. Kitchen, sports and grounds equipment repairs decreased \$55 thousand from preventative maintenance and purchase of new equipment in 2023 reducing maintenance costs. Landscaping and streets and roads costs decreased \$32 thousand as we were able to perform some projects internally.

Fixed costs remained steady at \$1.4 million, however due to an assessment appeal, real estate taxes were lowered \$101 thousand. This was offset by insurance cost increases of \$108 thousand.

Utilities decreased \$129 thousand attributable to lower costs in heating oil and propane.

Interest expense decreased \$21 thousand from 2022 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 22.1% for 2023 and 2.4% for 2022. The change in the effective tax rate is from Skytop's profitability in 2023, the increased tax resulting from the employee tax credit refund and limited use of loss carryforwards allowed by federal and state taxing authorities. In 2022 the PPP loan forgiveness was not a taxable item.

Skytop Lodge Corporation

Financial Statements

December 31, 2023 and 2022

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 (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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.

Philadelphia, Pennsylvania
March 25, 2024

Skytop Lodge Corporation

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash	\$ 5,250,330	\$ 3,690,480
Accounts receivable, net	1,134,864	1,012,130
Inventories	502,823	548,667
Other current assets	463,776	448,911
Prepaid income taxes	-	14,509
	<u>7,351,793</u>	<u>5,714,697</u>
Total current assets	7,351,793	5,714,697
Cash Held for Property and Equipment	487,682	482,331
Operating Lease Right-of-Use Assets	151,008	285,620
Property and Equipment, Net	19,987,382	19,364,618
Other Assets	<u>17,687</u>	<u>17,687</u>
Total	<u><u>\$ 27,995,552</u></u>	<u><u>\$ 25,864,953</u></u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Current maturities of notes payable	\$ 378,878	\$ 367,439
Current maturities of finance leases	27,429	26,355
Current maturities of operating leases	115,139	134,612
Accounts payable, trade	868,470	824,844
Accrued expenses	1,263,975	1,412,022
Advance deposits	2,475,860	2,537,853
Income taxes payable	<u>171,473</u>	<u>-</u>
Total current liabilities	5,301,224	5,303,125
Notes Payable	4,284,694	4,655,533
Finance Leases	5,199	32,627
Operating Leases	35,869	151,008
Deferred Tax Liability	<u>427,295</u>	<u>-</u>
Total liabilities	<u>10,054,281</u>	<u>10,142,293</u>
Shareholders' Equity		
Preferred stock	943,300	943,300
Common stock	9,822	9,822
Additional paid-in capital	191,561	191,561
Retained earnings	<u>16,796,588</u>	<u>14,577,977</u>
Total shareholders' equity	<u>17,941,271</u>	<u>15,722,660</u>
Total	<u><u>\$ 27,995,552</u></u>	<u><u>\$ 25,864,953</u></u>

See notes to financial statements

Skytop Lodge Corporation

Statements of Operations

Years Ended December 31, 2023 and 2022

	2023	2022
Revenues		
Rooms	\$ 14,070,386	\$ 13,974,340
Food and beverage	11,418,460	11,414,055
Sports and recreation	2,357,100	2,347,464
Other operated departments	766,173	743,994
Other income	492,362	401,693
Total revenues	29,104,481	28,881,546
Departmental Expenses		
Rooms	3,638,195	3,673,823
Food and beverage	9,249,493	9,016,136
Sports and recreation	2,797,592	2,625,635
Other operated departments	703,456	645,946
Total departmental expenses	16,388,736	15,961,540
Other Expenses (Income)		
Overhead:		
Administrative and general	3,190,738	3,398,961
Sales and marketing	1,638,102	1,425,852
Information technology and telecomm	269,432	261,823
Repairs and maintenance	2,583,234	2,533,118
Utilities	1,036,350	1,165,506
Total overhead	8,717,856	8,785,260
Fixed charges:		
Property taxes	459,242	559,928
Insurance	767,804	660,763
Corporate/shareholder expense	164,944	150,149
Investment expense	-	5,873
Total fixed charges	1,391,990	1,376,713
Depreciation and amortization	1,546,387	1,439,052
PPP loan forgiveness	-	(2,000,000)
Employee retention credit earned	(2,099,399)	-
Gain on disposal of assets	(11,600)	(63,962)
Total other expenses, net	9,545,234	9,537,063
Income before interest expense and income taxes	3,170,511	3,382,943
Interest Expense	237,592	258,318
Income before provision for income taxes	2,932,919	3,124,625
Provision for Income Taxes	648,277	70,445
Net income	\$ 2,284,642	\$ 3,054,180

See notes to financial statements

Skytop Lodge Corporation

Statements of Changes in Shareholders' Equity
Years Ended December 31, 2023 and 2022

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2021	\$ 943,300	\$ 9,822	\$ 191,561	\$ 11,589,828	\$ 12,734,511
Net income	-	-	-	3,054,180	3,054,180
Dividends paid	-	-	-	(66,031)	(66,031)
Balance at December 31, 2022	943,300	9,822	191,561	14,577,977	15,722,660
Net income	-	-	-	2,284,642	2,284,642
Dividends paid	-	-	-	(66,031)	(66,031)
Balance at December 31, 2023	<u>\$ 943,300</u>	<u>\$ 9,822</u>	<u>\$ 191,561</u>	<u>\$ 16,796,588</u>	<u>\$ 17,941,271</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Net income	\$ 2,284,642	\$ 3,054,180
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,546,387	1,439,052
Provision (credit) for bad debts	13,955	(4,447)
Gain on disposal of assets	(11,600)	(63,962)
Amortization of operating lease right-of-use assets	134,612	129,343
Deferred income taxes	427,295	-
PPP loan forgiveness	-	(2,000,000)
Changes in assets and liabilities:		
Accounts receivable	(136,689)	(734,670)
Inventories	45,844	(134,391)
Other current assets and prepaid income taxes	(356)	74,903
Other assets	-	41,800
Accounts payable, trade	43,626	77,671
Accrued expenses	(148,047)	(69,726)
Operating leases	(134,612)	(129,343)
Advance deposits	(61,993)	67,286
Income taxes payable	171,473	-
Net cash provided by operating activities	<u>4,174,537</u>	<u>1,747,696</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(2,219,537)	(1,836,294)
Proceeds from disposal of assets	66,462	70,254
Net cash used in investing activities	<u>(2,153,075)</u>	<u>(1,766,040)</u>
Cash Flows From Financing Activities		
Repayment of notes payable	(363,876)	(352,347)
Repayment of finance lease liability	(26,354)	(42,498)
Dividends paid	(66,031)	(66,031)
Net cash used in financing activities	<u>(456,261)</u>	<u>(460,876)</u>
Net increase (decrease)	1,565,201	(479,220)
Cash and Cash Held for Property and Equipment, Beginning	<u>4,172,811</u>	<u>4,652,031</u>
Cash and Cash Held for Property and Equipment, Ending	<u><u>\$ 5,738,012</u></u>	<u><u>\$ 4,172,811</u></u>
Supplemental Disclosures of Cash Flow Information		
Income taxes paid	<u>\$ 35,000</u>	<u>\$ 30,000</u>
Interest paid	<u><u>\$ 237,592</u></u>	<u><u>\$ 258,318</u></u>

See notes to financial statements

Skytop Lodge Corporation

Notes to Financial Statements

December 31, 2023 and 2022

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Skytop Lodge Corporation (the 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 consists primarily of balances billed and unbilled for group and event fees.

The Company recognizes an allowance for credit losses for accounts receivable to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on our expectation as of the balance sheet date. The Company uses the historic loss rate method in estimating the allowance for credit losses. Receivables are written off when the Company determined that such receivables are deemed uncollectible. The Company pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Company measures those receivables individually.

The allowance for doubtful accounts due to potential credit losses was \$24,000 and \$10,000 at December 31, 2023 and 2022, respectively.

Inventories

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

Skytop Lodge Corporation

Notes to Financial Statements

December 31, 2023 and 2022

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 2023 and 2022.

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.

Right-of-Use Assets and Lease Liabilities

The Company's leases are generally for equipment. At lease inception, the Company classifies leases as either finance or operating leases and measures the associated right-of-use asset and lease liability at the net present value of future lease payments. In determining the discount rate used to measure the right-of-use asset and lease liability for each lease, the Company uses the rate implicit in the lease, or if not readily available, the Company's incremental borrowing rate is used.

As of December 31, 2023, the Company did not have any lease agreements with material residual value guarantees where a payment at the end of the lease term was probable or material restrictions or covenants.

Skytop Lodge Corporation

Notes to Financial Statements

December 31, 2023 and 2022

Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term. Cash payments arising from operating leases are classified within operating activities in the consolidated statement of cash flows.

Lease expense for the Company's finance leases is comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. The principal portion of the finance lease payment is classified in the finance activities of the consolidated statement of cash flows.

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 \$526,521 in 2023 and \$472,883 in 2022.

Adoption of New Accounting Standard

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, current expected credit losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. Effective January 1, 2023, the Company adopted the ASU prospectively.

Subsequent Events

Subsequent events have been evaluated for recognition or disclosure through March 25, 2024, the date the financial statements were available to be issued.

2. Inventories

Inventories consist of the following at December 31:

	2023	2022
Beverage	\$ 107,851	\$ 117,360
Retail merchandise	200,340	198,478
Food	106,187	154,081
Operating supplies	88,445	78,748
Total	<u>\$ 502,823</u>	<u>\$ 548,667</u>

Skytop Lodge Corporation

Notes to Financial Statements

December 31, 2023 and 2022

3. Property and Equipment

Property and equipment consist of the following at December 31:

	2023	2022
Land	\$ 624,786	\$ 624,786
Land improvements	8,798,505	8,518,501
Buildings and improvements	28,368,996	27,857,049
Furniture, equipment, and other assets	15,026,951	13,901,180
Finance lease right-of-use assets	128,184	128,184
Construction in progress	315,149	274,114
Total	53,262,571	51,303,814
Less accumulated depreciation	33,275,189	31,939,196
Net	<u>\$ 19,987,382</u>	<u>\$ 19,364,618</u>

Depreciation expense was \$1,541,911 in 2023 and \$1,434,576 in 2022. Accumulated depreciation on assets under finance leases was \$47,668 and \$34,849 at December 31, 2023 and 2022, 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 August 2024. There were no borrowings at December 31, 2023 and 2022.

5. Notes Payable

Notes payable consist of the following at December 31:

	2023	2022
<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	\$ 4,684,570	\$ 5,039,107
<u>Ally Bank</u>		
Term note, due in monthly payments of \$840, including interest at 8.54%, maturing April 2024; secured by vehicle	3,247	12,586
Total	4,687,817	5,051,693
Less deferred financing costs	24,245	28,721
Less current maturities	378,878	367,439
Long-term notes payable	<u>\$ 4,284,694</u>	<u>\$ 4,655,533</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.

Skytop Lodge Corporation

Notes to Financial Statements

December 31, 2023 and 2022

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 \$487,682 at December 31, 2023 and \$482,331 at December 31, 2022 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	
2024	\$ 378,878
2025	394,062
2026	413,399
2027	433,685
2028	454,966
Thereafter	<u>2,612,827</u>
Total	<u>\$ 4,687,817</u>

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.

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. Employee Retention Credits

The Employee Retention Credit (ERC), which was included as part of the Coronavirus Aid, Relief and Economic Security Act and amended by the Consolidated Appropriations Act, the American Rescue Plan Act, and the Infrastructure Investment and Jobs Act, incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020 and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. The Company qualified for the ERC as its operations were partially suspended during the second quarter of 2020 and the first and second calendar quarters of 2021 due to orders from the Pennsylvania Department of Health limiting certain of its activities due to COVID-19. The Company averaged more than 100 full-time employees (FTEs), but less than 500 FTEs during 2019, therefore, it was considered a large employer during 2020 and a small employer during 2021. As a large employer in 2020, only wages paid to employees not providing services were eligible for the ERC, while as a small employer in 2021 all of the Company's otherwise qualified wages were eligible. For 2020, the ERC equaled 50% of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit for each employee of \$5,000. For 2021, the ERC equaled 70% of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit of \$21,000 for each employee.

Skytop Lodge Corporation

Notes to Financial Statements

December 31, 2023 and 2022

The Company applied for the ERC in 2023 by amending its previously filed forms 941, and as a result, the Company has accounted for this government grant by way of analogy to FASB Accounting Standards Codification (ASC) 410, *Asset Retirement and Environmental Obligations*. ASC 410-30-35-8 indicates that a claim for recovery should be recognized only when the claim is probable of recovery as defined in ASC 450-20-25-1 (i.e. *Contingencies*). Accordingly, the Company believes that the recovery of employment tax amounts previously paid is probable, and therefore, has recorded \$2,013,406 as employee retention credit earned in the other income section of its statement of operations as of and for the year ended December 31, 2023. The employee retention credit earned is reported inclusive of interest paid with the credits receipt and net of fees incurred for calculation and amendment of forms.

8. 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 one year at December 31, 2023 and two years at December 31, 2022.

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, 2023:

Years ending December 31:	
2024	\$ 28,234
2025	<u>4,706</u>
Total minimum lease payments	32,940
Less amount representing interest	<u>312</u>
Present value of net minimum lease payments	32,628
Less current maturities	<u>27,429</u>
Long-term finance lease liability	<u>\$ 5,199</u>

Total finance lease cost was \$14,697 in 2023 and \$16,818 in 2022, consisting of interest of \$1,879 in 2023 and \$4,000 in 2022 and depreciation of the right-of-use assets of \$12,818 in 2023 and \$12,818 in 2022. Total payments made for finance leases were \$26,355 in 2023 and \$46,497 in 2022.

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.

Total operating lease expense was \$143,410 and \$144,182 in 2023 and 2022 respectively. There are no variable lease costs. The weighted average remaining lease term for operating leases is approximately one year at December 31, 2023 and two years at December 31, 2022 and the weighted average discount rate is 4% at December 31, 2023 and 2022.

Skytop Lodge Corporation

Notes to Financial Statements

December 31, 2023 and 2022

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, 2023:

Years ending December 31:	
2024	\$ 119,433
2025	<u>46,622</u>
Total minimum lease payments	166,056
Less amount representing interest	<u>15,048</u>
Present value of net minimum lease payments	151,008
Less current maturities	<u>115,139</u>
Long-term operating lease liability	<u>\$ 35,869</u>

9. Income Taxes

The provision for income taxes is comprised of the following:

	<u>2023</u>	<u>2022</u>
Current	\$ 220,982	\$ 70,445
Deferred	<u>427,295</u>	<u>-</u>
Total	<u>\$ 648,277</u>	<u>\$ 70,445</u>

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

	<u>2023</u>		<u>2022</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Expected provision at statutory rate	\$ 615,913	21.0 %	\$ 656,171	21.0 %
PPP loan forgiveness	-	0.0	(420,000)	(13.4)
State income taxes	62,553	2.1	89,220	2.9
Valuation allowance	(231,883)	(7.9)	(282,609)	(9.0)
Employee retention credit recognition adjustment	49,054	1.7	-	0.0
Amendment of prior year returns	192,302	6.6	-	0.0
Other	<u>(39,662)</u>	<u>(1.4)</u>	<u>27,663</u>	<u>0.9</u>
Actual provision and rate	<u>\$ 648,277</u>	<u>22.1 %</u>	<u>\$ 70,445</u>	<u>2.4 %</u>

Skytop Lodge Corporation

Notes to Financial Statements
December 31, 2023 and 2022

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

	2023	2022
Accrued leave	\$ 61,884	\$ 54,201
Allowance for doubtful accounts	6,745	2,810
Operating lease liability	42,436	80,265
Other	2,772	2,796
Advance deposits, gift certificates	123,445	118,305
Net operating loss carryforwards	502,437	1,052,048
Operating lease right-of-use asset	(42,436)	(80,265)
Property and equipment	(1,124,578)	(998,328)
Gross deferred tax (liability) assets, net	(427,295)	231,832
Valuation allowance	-	(231,832)
Net deferred tax (liability) asset	\$ (427,295)	\$ -

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 \$231,832 in 2023 as a result in the ERC recognition on a tax basis in the 2020 and 2021 tax years, resulting in a reduction of the net operating loss carry forward and a change in the deferred tax asset to a deferred tax liability in 2023. The valuation allowance decreased \$282,609 in 2022 primarily due to taxable income for 2022.

At December 31, 2023, the Company has approximately \$1 million of federal and \$3 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.

10. 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 2023 and 2022.

The Company's arrearage in cumulative preferred stock dividends per share was \$238 at December 31, 2023 and 2022. The total arrearage for all shares was \$2,245,034 at December 31, 2023 and 2022.

In 2023, the Company declared and paid a \$7 per share dividend to preferred stockholders totaling \$66,031. In 2022, the Company declared and paid a \$7 per share dividend to preferred stockholders totaling \$66,031.

On March 8, 2024, the Board of Directors declared a \$7 per share dividend and a \$7 per share dividend in arrears to preferred stockholders of record on May 2, 2024, payable May 10, 2024. The dividend totals \$132,062.

11. 401(k) Plan Expense

The Company sponsors a defined contribution 401(k) plan and recognized \$97,808 in 2023 and \$101,175 in 2022 of expense related thereto.

12. 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.

13. 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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