

**THE HILTON HEAD MOTORCOACH RESORT
OWNERS' ASSOCIATION, INC.
AND SUBSIDIARY**

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

**THE HILTON HEAD MOTORCOACH RESORT OWNERS'
ASSOCIATION, INC. AND SUBSIDIARY**

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

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Independent Auditors' Report

To the Board of Directors
The Hilton Head Motorcoach Resort Owners Association, Inc. and Subsidiary
Hilton Head Island, South Carolina

We have audited the accompanying consolidated financial statements of The Hilton Head Motorcoach Resort Owners Association, Inc. and Subsidiary ("the Association"), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of revenues, expenses and changes in fund balance and consolidated cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

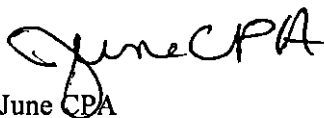
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Hilton Head Motorcoach Resort Owners' Association, Inc. and Subsidiary as of December 31, 2019, and the results of its operations and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the Consolidating Statement of Revenues, Expenses and Changes in Fund Balance is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Supplementary Information on Future Major Repairs and Replacements on page 14 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



June CPA
Hilton Head Island, SC
March 9, 2020

**The Hilton Head Motorcoach Resort Owners'
Association, Inc. and Subsidiary
Consolidated Balance Sheet
December 31, 2019 and 2018**

	2019	2018
Assets		
Current assets:		
Cash	\$ 687,004	\$ 643,406
Cash, deposits	198,351	91,448
Cash, reserve fund	7,463	45,760
Cash, contingency fund, board designated	-	51,000
Accounts receivable, net	-	45,344
Other current assets	2,069	2,115
Prepaid insurance	30,073	29,947
Total current assets	924,960	909,020
Property and equipment, net	856,744	849,950
Total assets	\$ 1,781,704	\$ 1,758,970
Liabilities and Fund Balance		
Current liabilities:		
Accounts payable	\$ 16,247	\$ 79,052
Other payables	50,304	51,936
Accrued expenses	63,855	80,225
Accrued payroll	7,245	23,646
Advance rental deposits	198,351	91,448
Deferred revenue, operating	8,825	36,998
Long-term debt, current portion	28,778	28,009
Total current liabilities	373,606	391,314
Long-term liabilities		
Long-term debt	59,079	88,089
Total liabilities	432,685	479,402
Fund Balance		
Designated	7,463	96,760
Undesignated	1,341,556	1,182,807
Total fund balance	1,349,019	1,279,567
Total liabilities and fund balance	\$ 1,781,704	\$ 1,758,970

See accompanying notes to financial statements.

**Hilton Head Motorcoach Resort Owners Association, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(g) Member Maintenance Fee

Association members are subject to quarterly maintenance fees to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements.

(h) Marketing Expenses

The Association expenses marketing costs as they are incurred.

(i) Income Taxes

A homeowners' association may be taxed either as a homeowners' association or as a Subchapter C corporation. The Hilton Head Motorcoach Owners' Association, Inc. filed as a homeowners' association for the year ended December 31, 2018 and December 31, 2017. With this election, membership income is exempt from taxation, and only non-membership income, less allowable expenses, is taxed.

The Hilton Head Island Motorcoach Resort, LLC is taxed as a corporation. As a regular corporation, income is taxed at the regular federal and state corporate income tax rates. Losses from membership activities cannot be used to offset interest income and income derived from non-members. Certain restricted elections can be made to apply excess membership assessments to the succeeding year and to treat assessments for current and future capital acquisitions as non-taxable paid-in capital assessments.

(j) Uncertainty in Income Taxes

Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Association's federal and state returns will not be challenged by taxing authorities and that the Association will not be subject to tax, penalties and interest as a result of such challenge. Generally, the Association's tax returns remain open for examination by governmental authorities for three years subsequent to their original filing.

(k) Subsequent Events

Management has evaluated events and transactions subsequent to December 31, 2019 through March 9, 2020, the date the consolidated financial statements were available to be issued, for potential recognition or disclosure in the financial statements.

(3) Concentrations

(a) Concentrations of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalent accounts held at financial institutions. The credit worthiness of the parties to these transactions is subject to continuous review and evaluation.

**Hilton Head Motorcoach Resort Owners Association, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

The cash balances are held as deposits with financial institutions. Such balances are secured by the Federal Deposit Insurance Corporation up to \$250,000. The Association monitors its positions with, and the credit quality of, the financial institution which is counterparty to its financial instruments and does not anticipate nonperformance by this financial institution. There was no uninsured balance as of December 31, 2019 and December 31, 2018.

(b) Other Concentrations

Due to the Association being located in Hilton Head Island, South Carolina and the Association's dependence upon its assessments and fees on owners for funding, a significant economic dependency exists on the area's ability to remain an attractive tourism and residential location as well as the owners' personal financial conditions.

(4) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Clubhouse renovation	\$ 544,359	\$ 497,251
Building	159,219	154,219
Lot	55,000	-
Park improvements	785,078	785,078
Equipment	105,947	173,676
Vehicles	18,827	18,827
Furniture and fixtures	42,469	35,218
Gate system	<u>249,038</u>	<u>249,038</u>
Subtotal	1,959,937	1,913,307
Less accumulated depreciation	<u>(1,103,193)</u>	<u>(1,063,357)</u>
Net property and equipment	<u>\$ 856,744</u>	<u>\$ 849,950</u>

**Hilton Head Motorcoach Resort Owners Association, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(5) Debt

Long-term debt consists of the following at December 31:

	2019
Promissory note for the clubhouse renovation renewed on March 5, 2018, with a maximum principal balance of \$145,000, monthly payments of \$2,589, including interest fixed at 2.7% per annum. The note matures March 5, 2023, and is collateralized by all bank accounts.	\$ 87,857
Less current portion of long-term debt	28,778
Long-term debt, net of current portion	\$ 59,079

Long-term debt consists of the following at December 31:

	2018
Promissory note for the clubhouse renovation renewed on December 12, 2012, with a maximum principal balance of \$259,002, quarterly payments of \$7,793, including interest fixed at 3.8% per annum. The note matures November 15, 2022, and is collateralized by regular and special assessments.	\$ 116,098
Less current portion of long-term debt	28,009
Long-term debt, net of current portion	\$ 88,089

Maturities of long-term debt as of December 31, 2019 are as follows:

Years Ending	Payments
2020	\$ 28,778
2021	29,583
2022	29,496
2023	-
2024 and thereafter	-
	\$ 87,857

**The Hilton Head Motorcoach Resort Owners'
Association, Inc. and Subsidiary
Consolidated Statement of Revenues, Expenses
and Changes in Fund Balance
For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Revenues		
Maintenance fees	\$ 963,000	\$ 962,400
Site rental	644,000	595,255
Recreation fees	13,981	21,007
Transfer fees	85,325	83,660
Other operating revenue	34,425	73,146
Miscellaneous income	115,387	8,014
	<u>1,856,118</u>	<u>1,743,483</u>
Expenses		
Maintenance		
General	175,161	79,007
Contracted	317,036	336,987
Capital projects	102,091	185,167
Salaries and payroll taxes	356,897	324,752
Depreciation	94,564	99,090
Utilities	345,897	341,865
General and administrative expenses	159,773	142,496
Insurance	70,063	70,299
Bad debt expense	1,588	(9,155)
Reservations	26,132	42,481
Marketing	58,384	66,724
Recreation	72,892	52,484
Activities	3,110	6,360
	<u>1,783,587</u>	<u>1,738,554</u>
Operating income	<u>72,531</u>	<u>4,929</u>
Other income and expenses		
Interest expense, capital projects	2,826	3,230
Loss on disposal of assets	253	-
	<u>3,079</u>	<u>3,230</u>
Net income	69,452	1,699
Beginning fund balance	<u>1,279,567</u>	<u>1,277,868</u>
Ending fund balance	<u>\$ 1,349,019</u>	<u>\$ 1,279,567</u>

See accompanying notes to financial statements.

**The Hilton Head Motorcoach Resort Owners'
Association, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Years Ended December 31, 2019 and 2018**

	2019	2018
Net cash provided by(used in) operating activities:		
Net income (loss)	\$ 69,452	\$ 1,699
Adjustments to reconcile net income(loss) to net cash provided by(used in) operating activities:		
Depreciation	94,564	99,090
(Gain) loss on disposal of assets	253	-
Bad debt expense	1,588	(9,155)
Change in assets and liabilities which provided (used) cash:		
Accounts receivable	43,757	(24,962)
Accounts receivable, other	-	-
Inventory	-	-
Prepaid insurance	(126)	1,318
Other current assets	46	-
Accounts payable	(62,805)	40,171
Other payables	(1,632)	(75,347)
Accrued expenses	(16,370)	51,925
Accrued payroll	(16,400)	144
Advance rental deposits	106,903	112
Deferred revenue	(28,173)	28,188
	191,057	113,183
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(101,612)	(11,373)
	(101,612)	(11,373)
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Repayment of long term debt	(28,241)	(26,747)
	(28,241)	(26,747)
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	61,204	75,063
Beginning cash	831,614	756,550
Ending cash	\$ 892,818	\$ 831,614
Supplemental disclosure:		
Interest paid	\$ 2,826	\$ 3,230
Income taxes paid	\$ -	\$ -

See accompanying notes to financial statements.

**Hilton Head Motorcoach Resort Owners Association, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(1) Organization

The accompanying consolidated financial statements consist of the accounts of The Hilton Head Motorcoach Resort Owners' Association, Inc. and its wholly owned subsidiary, The Hilton Head Island Motorcoach Resort, LLC (collectively the "Association"). The Association was formed to manage and maintain real and personal properties for, and furnish services to, the members of the Association who are the owners of the real property in The Motorcoach Resorts, Beaufort County, South Carolina. The resort consists of 401 motorcoach lots located on approximately 49 acres in Hilton Head Island, South Carolina. Common areas and amenities include swimming pools, fitness center, clubhouse, roadways, tennis courts, and administrative building. The Association generally cannot dispose of common property. The subsidiary is responsible for the sale and rental of the motorcoach lots within the Association.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when the earnings process is completed, and expenses are recognized in the period incurred. The use of the accrual method has the effect of deferring the recognition of certain revenues until the period during which they relate, and corresponding services are provided.

To ensure observances of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting purposes in the following funds established according to their nature and purpose:

Undesignated Fund – This fund is used to account for financial resources available for the general operation of the Association.

Designated Fund – This fund is used to accumulate funds designated for future major repairs and replacements of existing facilities and equipment.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America require 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 consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

**Hilton Head Motorcoach Resort Owners Association, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(c) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Association considers all investments purchased with original maturities of three months or less to be cash equivalents. Such investments are stated at cost which approximates fair market value.

(d) Accounts Receivable

Accounts receivable relate to maintenance fees and other amounts due from owners and are stated at the amount management expects to collect from outstanding balances. The Association considers a maintenance fee delinquent if not paid on or before the 30th day after the due date. Delinquent fees accrue finance charges of 8% per annum plus the cost of collection, including legal fees, and begin to accrue 45 days after an account is classified as delinquent. The Association's policy is to retain legal counsel and place liens on the properties of those owner whose assessments are in arrears. An allowance for doubtful accounts has been established based upon management's estimate of probable losses. The Association's allowance for doubtful accounts was \$9,506 and \$7,918 at December 31, 2019 and December 31, 2018, respectively. Recoveries of receivables previously written off are recorded when received.

(e) Property and Equipment

Common real property was transferred to the Association at no cost by the developer and was not recorded at the fair market value at the transfer date because the contributed property cannot generate either revenues or be sold with the Association retaining the proceeds. The Association capitalizes property and equipment to which it has title or other evidence of ownership. Property and equipment acquired by the Association is recorded at cost. Maintenance and repairs which do not exceed the useful life of the property and equipment are charged to expense. Depreciation is calculated using straight line and accelerated methods over the estimated useful lives of the assets which are as follows:

	<u>Years</u>
Clubhouse renovation	39
Building	39
Park improvements	5-31.5
Equipment	3-7
Vehicles	7
Furniture and fixtures	5-20
Gate system	15

(f) Compensated Absences

Employees are entitled to paid personal days off depending on the length of service and other factors. The Association recognizes the cost of compensated absences when paid. There is no carryover of unused personal days from year-to-year.

**Hilton Head Motorcoach Resort Owners Association, Inc.
and Subsidiary**

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

The Association has a commitment for a \$250,000 line of credit to be used in the event of a natural disaster. Any draws are secured by all current and future accounts of the Association. The interest rate is set at the Wall Street Journal Prime rate plus 1%. The disaster line of credit had no balance and no draws as of and for the year ended December 31, 2018 and December 31, 2019. On May 31, 2019, this credit facility was renewed with a maturity date of June 5, 2020.

(6) Commitments and Contingencies

The Association entered into a five-year agreement with a private communications company on June 15, 2018. The private communications company installed and maintains facilities that allow basic video and Wi-Fi broadband services to the Association and its members. For the year ended December 31, 2019 and December 31, 2018, the Association expended \$150,117 and \$124,939, respectively, for service fees.

The Association is under contract for various services, renewed annually, for the care and maintenance of its common properties. These organizations were compensated monthly for their services.

The Association is involved in various claims and lawsuits, both for and against the Association, arising in the normal course of business. In the opinion of management and counsel, the outcome of this litigation will have no material or adverse effect on the Association.

(7) Future Major Repairs and Maintenance

The Association's governing documents and applicable state laws do not require the Association to accumulate reserves for future major repairs and replacements of common properties. The Association budgets funds for future major repairs and replacements. A study was performed as a full-service study as defined under the National Reserve Study Standards in 2010 to determine the remaining useful lives and the replacement costs of the components of common property. The Association used this information to develop a long-range plan for a period of several years. The table on page 14, which is included in the unaudited supplementary information on Future Major Repairs and Replacements, is based on the plan. Management intends to update the plan on a periodic basis.

Funds are budgeted for spending based on the long-range plan of future needs for repairs and replacements of common property components. Actual expenditures may vary from the plan, and the variations may be material. In the event that amounts budgeted may not be adequate to meet all future needs for major repairs and replacements, the Association has the right, subject to the terms of the Association covenants, to increase regular assessments, pass special assessments, or delay major repairs and replacements.

**The Hilton Head Motorcoach Resort Owners'
Association, Inc. and Subsidiary
Consolidating Statement of Revenues, Expenses
and Changes in Fund Balance
For the Year Ended December 31, 2019**

	Motorcoach Resort Owners' Association	Motorcoach Resort, LLC	Eliminations	Consolidated Total
Revenues				
Maintenance fees	\$ 963,000	\$ -	\$ -	\$ 963,000
Site rental	-	644,000	-	644,000
Recreation fees	13,981	-	-	13,981
Transfer fees	85,325	-	-	85,325
Other operating revenue	64,392	1,633	(31,600)	34,425
Miscellaneous income	34,477	80,910	-	115,387
Total revenues	1,161,175	726,543	(31,600)	1,856,118
Expenses				
Maintenance				
General	107,745	67,416	-	175,161
Contracted	195,016	122,020	-	317,036
Capital projects	102,091	-	-	102,091
Salaries and payroll taxes	152,885	204,011	-	356,897
Depreciation	94,564	-	-	94,564
Utilities	212,768	133,128	-	345,897
General and administrative expenses	102,933	88,440	(31,600)	159,773
Insurance	43,098	26,966	-	70,063
Bad debt expense	1,588	-	-	1,588
Reservations	-	26,132	-	26,132
Marketing	-	58,384	-	58,384
Recreation	72,892	-	-	72,892
Activities	-	3,110	-	3,110
Total expenses	1,085,580	729,606	(31,600)	1,783,587
Operating income	75,595	(3,063)	-	72,531
Other income and expenses				
Interest expense, capital projects	2,826	-	-	2,826
Loss on disposal of assets	253	-	-	253
Total other income and expenses	3,079	-	-	3,079
Net income	72,516	(3,063)	-	69,452
Beginning fund balance	1,289,458	(9,892)	-	1,279,567
Ending fund balance	\$ 1,361,974	\$ (12,955)	\$ -	\$ 1,349,019

See accompanying notes to financial statements.

**The Hilton Head Motorcoach Resort Owners'
Association, Inc. and Subsidiary
Consolidating Statement of Revenues, Expenses
and Changes in Fund Balance
For the Year Ended December 31, 2018**

	Motorcoach Resort Owners' Association	Motorcoach Resort, LLC	Eliminations	Consolidated Total
Revenues				
Maintenance fees	\$ 962,400	\$ -	\$ -	\$ 962,400
Site rental	-	595,255	-	595,255
Recreation fees	21,007	-	-	21,007
Transfer fees	83,660	-	-	83,660
Other operating revenue	93,915	10,831	(31,600)	73,146
Miscellaneous income	7,689	325	-	8,014
Total revenues	1,168,671	606,411	(31,600)	1,743,483
Expenses				
Maintenance				
General	51,513	27,494	-	79,007
Contracted	219,716	117,271	-	336,987
Capital projects	142,367	42,800	-	185,167
Salaries and payroll taxes	175,653	149,097	-	324,752
Depreciation	99,090	-	-	99,090
Utilities	222,896	118,969	-	341,865
General and administrative expenses	86,109	87,987	(31,600)	142,496
Insurance	45,835	24,464	-	70,299
Bad debt expense	(9,155)	-	-	(9,155)
Reservations	-	42,481	-	42,481
Marketing	-	66,724	-	66,724
Recreation	52,484	-	-	52,484
Activities	-	6,360	-	6,360
Total expenses	1,086,508	683,646	(31,600)	1,738,554
Operating income	82,163	(77,235)	-	4,929
Other income and expenses				
Interest expense, capital projects	3,230	-	-	3,230
Loss on disposal of assets	-	-	-	-
Total other income and expenses	3,230	-	-	3,230
Net income	78,933	(77,235)	-	1,699
Beginning fund balance	1,210,525	67,343	-	1,277,868
Ending fund balance	\$ 1,289,458	\$ (9,892)	\$ -	\$ 1,279,567

See accompanying notes to financial statements.

Hilton Head Motorcoach Resort Owners Association, Inc.
and Subsidiary

December 31, 2019

Supplementary Information on Future Major Repairs and Replacements (Unaudited)

The Board developed a long-range plan in 2017 based on assessed needs from a 2010 Miller Dodson Associations study and it was for a period of ten years. The projected costs of replacement during the eight-year period remaining of the study are as follows:

<u>Year</u>	<u>Total estimated cost of replacements</u>
2020	\$ 130,600
2021	117,615
2022	99,250
2023	109,400
2024	94,000
2025	69,000
2026	175,113
2027	63,000
2028	149,860
	<u>\$ 1,007,838</u>

The estimated replacement costs by component unit for this period are as follows:

<u>Components</u>	<u>Remaining Useful Lives of the Components</u>	<u>Estimated Future Replacement Costs</u>
Miscellaneous repairs	1-10 years	\$ 270,000
Pool/spa	7 years	138,815
Asphalt	1-10 years	80,000
Water improvements	1-10 years	85,800
Building improvements	1-10 years	99,013
Lighting and electrical	1-10 years	59,060
Clubhouse	1-10 years	64,400
Land improvements	10 years	36,000
Laundromat	5-10 years	41,250
Tennis	5 years	40,200
Furniture	4 years	35,300
Air conditioning & heating	4 years	25,000
Technology	4 years	18,000
Exercise equipment	4 years	15,000
Totals		<u>\$ 1,007,838</u>
Members' equity capital reserve fund as of December 31, 2019		<u>\$ 7,463</u>