Vaquero Club, Inc. and Subsidiary

Consolidated Financial Statements

June 30, 2023 and 2022

	Page
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Changes in Members' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

Independent Auditors' Report

To the Members and Finance Committee of
Vaquero Club, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Vaquero Club, Inc. and Subsidiary (the Company), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, changes in members' equity and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 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.

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 Consolidated 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.

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, on July 1, 2022, the Company adopted Accounting Standards Codification Topic 842 as required by Accounting Standards Update 2016-02, *Leases (Topic 842)* and its related amendments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, 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 consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Baker Tilly US, LLP

Plano, Texas
September 20, 2023

Vaquero Club, Inc. and Subsidiary

Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 13,305,564	$ 15,431,027
Restricted cash	875,258	2,981,631
Member receivables	2,124,100	2,819,778
Inventory	393,840	467,702
Prepaid expenses and other current assets	526,744	668,742
Total current assets	17,225,506	22,368,880
Property and Equipment, Net	52,513,611	36,143,587
Right-of-Use Asset Operating Lease, Net	1,035,614	-
Total assets	$ 70,774,731	$ 58,512,467
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	$ 296,996	$ 372,147
Accrued expenses	2,236,756	1,187,412
Contract liability membership dues	11,849,107	11,640,642
Current portion of contract liability transfers of memberships	1,564,853	1,516,465
Contract liability of capital assessment revenue	1,333,367	6,593,640
Current portion of equipment notes payable	12,487	24,023
Current portion of note payable	294,074	-
Current portion of operating lease liabilities	625,898	-
Wait list deposits	1,978,700	1,418,300
Other current liabilities	236,911	218,514
Total current liabilities	20,429,149	22,971,143
Contract Liability Transfers of Memberships, Net of Current Portion	7,228,029	7,505,675
Equipment Notes Payable, Net of Current Portion	8,578	17,323
Note Payable, Net of Current Portion and Debt Discount	11,339,673	9,362,732
Operating Lease Liabilities, Net of Current Portion	409,716	-
Total liabilities	39,415,145	39,856,873
Members' Equity	31,359,586	18,655,594
Total liabilities and members' equity	$ 70,774,731	$ 58,512,467

See notes to consolidated financial statements

Vaquero Club, Inc. and Subsidiary

Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022

	2023	2022
Revenues		
Member dues and fees	$ 13,074,285	$ 9,872,216
Food, beverage and banquet	3,056,532	2,930,107
Golf, tennis, fitness and spa	1,081,352	1,706,352
Debt service dues	4,514,896	1,602,710
Tennis and golf merchandise	936,451	1,233,353
Members' services	1,124,927	1,028,797
Service fees and other	725,621	777,341
Transfer fees	2,009,258	1,922,823
Capital assessment revenue	8,584,923	1,207,860
Total revenue	35,108,245	22,281,559
Operating Expenses		
Salaries, wages and benefits	9,812,250	8,617,036
Depreciation	2,467,645	2,742,964
General and administrative	1,687,631	2,172,977
Rent expense	1,140,600	1,026,772
Cost of food, beverages and sundries	1,562,817	1,586,308
Utilities and occupancy	1,844,635	1,580,819
Landscape maintenance	716,706	561,813
Cost of merchandise sales	575,624	789,833
Club supplies	462,092	536,578
Golf operations, special events and tournaments	255,312	452,335
Repairs and maintenance	465,022	482,429
Service fees	684,367	967,995
Linens, laundry and cleaning	86,523	72,988
Total operating expenses	21,761,224	21,590,847
Income from operations	13,347,021	690,712
Other Income (Expense)		
Interest expense, net	(248,611)	(363,696)
Gain on sale of property and equipment	-	22,803
Excess of revenues over expenses before taxes	13,098,410	349,819
Income Tax Expense	(186,918)	(72,767)
Excess of revenues over expenses after tax	$ 12,911,492	$ 277,052

See notes to consolidated financial statements

Vaquero Club, Inc. and Subsidiary

Consolidated Statements of Changes in Members' Equity
Years Ended June 30, 2023 and 2022

	Memberships Capital	Accumulated Deficit	Total Members' Equity
Balance, June 30, 2021	$ 65,589,139	$ (46,340,647)	$ 19,248,492
Changes in equity membership, net	(869,950)	-	(869,950)
Excess of revenues over expenses after taxes	-	277,052	277,052
Balance, June 30, 2022	64,719,189	(46,063,595)	18,655,594
Changes in equity membership, net	(207,500)	-	(207,500)
Excess of revenues over expenses after taxes	-	12,911,492	12,911,492
Balance, June 30, 2023	$ 64,511,689	$ (33,152,103)	$ 31,359,586

See notes to consolidated financial statements

Vaquero Club, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Excess of revenues over expenses	$ 12,911,492	$ 277,052
Adjustments to reconcile excess of revenues over expenses provided by operating activities:		
Depreciation	2,467,645	2,742,964
Amortization of debt issuance costs	15,203	3,993
Gain on sale of property and equipment	-	(22,803)
Noncash lease expense	577,454	-
Changes in operating assets and liabilities:		
Member receivables	695,678	(1,145,896)
Inventory	73,862	(51,783)
Prepaid expenses and other assets	141,998	(404,056)
Accounts payable	(75,151)	(286,762)
Accrued expenses	1,045,481	164,366
Contract liability membership dues	208,465	2,881,894
Contract liability transfers of memberships	(229,258)	51,927
Contract liability of capital assessment revenue	(5,260,273)	6,593,640
Wait list deposits	560,400	760,300
Operating lease liabilities	(577,454)	-
Other liabilities	18,397	(23,203)
Net cash provided by operating activities	12,573,939	11,541,633
Cash Flows From Investing Activities		
Purchases of property and equipment	(18,833,806)	(2,900,566)
Proceeds from sale of property and equipment	-	22,803
Net cash used in investing activities	(18,833,806)	(2,877,763)
Cash Flows From Financing Activities		
Payments on note payable	(1,011,846)	(11,156,500)
Debt issuance costs	-	(152,026)
Proceeds from note payable	3,267,658	10,343,724
Payments on equipment notes payable	(20,281)	(34,872)
Changes in equity memberships, net payments	(207,500)	(869,950)
Net cash provided by (used in) financing activities	2,028,031	(1,869,624)
Net change in cash and cash equivalents and restricted cash	(4,231,836)	6,794,246
Cash and Cash Equivalents and Restricted Cash, Beginning	18,412,658	11,618,412
Cash and Cash Equivalents and Restricted Cash, Ending	$ 14,180,822	$ 18,412,658
Supplemental Information		
Cash paid for interest	$ 248,611	$ 363,696
Cash paid for taxes	$ 103,444	$ 61,018
Noncash Financing Activities		
Implementation of ASC 842, leases recognition of operating right-of-use assets and operating lease liabilities as of as of July 1, 2022	$ 1,358,545	$ -
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	$ 254,523	$ -

See notes to consolidated financial statements

1. Description of Business

Vaquero Club, Inc., (the Company or Club), was formed under the Texas Non-Profit Corporation Act, to own and operate a private golf, tennis, fitness, and social club for the recreation, pleasure and benefits of its members and their families and guests.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements and footnotes of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Principles of Consolidation

The consolidated financial statements include the accounts of Vaquero Club, Inc. and its wholly owned subsidiary, Vaquero Club Beverages, which maintains the Texas liquor license. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Recent Accounting Pronouncements

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, November 2019 and March 2020, respectively, the FASB also issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; ASU No. 2019-05 *Targeted Transition Relief*; ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; and ASU No. 2020-03 *Codification Improvements to Financial Instruments*. ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

During December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*. ASU No. 2019-12 simplifies the accounting for income taxes by removing the following exceptions: (a) exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items; (b) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (c) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (d) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The ASU also makes the following amendments to the guidance: (a) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax; (b) requiring that an entity evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction; (c) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements, however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority; (d) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date; and (e) and making minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. ASU No. 2019-12 was effective for fiscal years beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022.

Reclassification

Certain reclassifications have been made to the prior year reported amounts related to the classification of inventory and prepaid expenses and other current assets to conform to the current period presentation on the consolidated statements of financial position. The classifications do not affect the amounts of income previously reported.

Cash and Cash Equivalents

The Company considers all highly liquid investment instruments with original maturities of three months or less when purchased to be cash equivalents. At various times throughout the fiscal years ended June 30, 2023 and 2022 cash and cash equivalent balances held at some financial institutions were in excess of the federally-insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash and cash equivalents.

Restricted Cash

The Company is required to maintain a deposit account held by B1 Bank as additional collateral and security for the draw facility, into which all capital assessment monies received are held. Restricted cash as of June 30, 2023 and 2022 was $875,258 and $2,981,631, respectively.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated financial position that agrees to the amount shown in the consolidated statements of cash flow as of June 30, 2023 and 2022:

	2023	2022
Cash and cash equivalents	$ 13,305,564	$ 15,431,027
Restricted cash	875,258	2,981,631
Total	$ 14,180,822	$ 18,412,658

Member Receivables

Member receivables are stated at the amount the Company expects to collect, do not bear interest, and are collateralized to the extent of members' equity account. Member receivables consists of invoices that have not been collected from members for dues invoiced annually, quarterly, or monthly and purchases. The Company considers the need for an allowance for uncollectible accounts based upon numerous factors, including past transaction history with members and other information. To the extent that limited historical experience is not indicative of future performance or other assumptions used by management do not prevail, the allowance for uncollectible accounts could differ significantly, resulting in future allowances for uncollectible accounts. Receivables are written off once management determines that the receivable is no longer collectible. As of June 30, 2023 and 2022, management reviewed the status of member receivables and determined no allowance for doubtful accounts was necessary. For the fiscal years ended June 30, 2023 and 2022, the Company did not record bad debt expense.

The Company also has a right to terminate and reclaim the member's ownership interest in the club if the member's account is over 120 days old. In addition, the bylaws allow the club to net a member's outstanding receivable balance against their member's equity and terminate any future refund rights. No outstanding member receivables were considered severely past due and therefore none have been reclaimed by the Board as of June 30, 2023 and 2022.

Right-of-Use Asset

Adoption of New Accounting Standard

Effective July 1, 2022, the Company adopted FASB ASU No. 2016-02, *Leases (Topic 842),* and all related amendments using the modified retrospective approach. The Company's 2022 consolidated financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the consolidated statements of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the non-cancelable lease term. 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. At the date of adoption, the Company recorded operating lease right-of-use assets and lease liabilities of $1,358,545.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Company elected:

- The package of practical expedients permitted under the transition guidance which does not require the Company to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.

The new standard also provides for several accounting policy elections, as follows:

- The Company has elected the policy not to separate lease and nonlease components.
- When the rate implicit in the lease is not determinable, rather than use the Company's incremental borrowing rate, the Company elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities;
- The Company elected not to apply the recognition requirements to leases with an original term of 12 months or less, for which the Company is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term;
- The Company elected to account for its equipment leases using the portfolio approach; as such, leases that have similar commencement dates, length of terms, renewal options or other contract terms have been combined into a lease portfolio whereby the resulting accounting at the portfolio level does not differ materially from that at the individual lease level.

Additional required disclosures for Topic 842 are contained in Note 7.

Revenue Recognition Policy

The Company derives the majority of its revenues from the provision of goods and services to golf and social club members. The Company accounts for revenue from contracts with customers, which comprises 100% of its revenue, through the following steps:

1) Identification of the contract with a customer
2) Identification of the performance obligations in the contract
3) Determination of the transaction price
4) Allocation of the transaction price to the performance obligations in the contract
5) Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company invoices members for membership and debt service dues in advance either annually, quarterly or monthly. Fees generated from the sale of goods and facility use services are invoiced upon the transfer of the goods and services to the member. Assessment fees for operating or capital project expenditures as well as nonrefundable membership transfer fees are invoiced upon board approval. All member payments, excluding those amounts paid at the point of sale, are generally due within 30 days of the invoice date.

Fixed membership and debt service dues and nonrefundable membership transfer fees are recognized on a straight-line basis over the period that the services are performed. Fixed assessment fees for operational expenditures previously incurred are recognized when the amount has been approved by the board and invoiced to the Company's members.

Capital assessment revenue is compromised of fixed assessment pricing invoiced to each member in three installments for the development of the capital project, the golf course. Performance obligation is the completion of the capital project golf course, which will be accessible to members as built and ready for use. The Company recognizes revenue over time, based on a percentage completion method.

The Company receives variable consideration for the sale of goods and facility use services because the Company charges a fixed rate amount per variable quantity for the transfer of these goods and services. The Company recognizes revenue from the sale of food, beverages and merchandise upon transfer of these goods to the member. The Company recognizes revenue from facility use services over time as the services are performed in accordance with the "right to invoice" practical expedient. As a result, the facility use services revenue is not subject to revenue constraint evaluation.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or providing services. Revenue is recognized when the Company satisfies its performance obligations under the contract by transferring the promised products or services to its members.

The Company's contracts generally do not include any material significant financing components.

Performance Obligations

The Company satisfies its membership services and facility use services performance obligations over time as the customer receives and consumes the benefits of the services. The Company satisfies its performance obligations related to the provision of food, beverages and merchandise when control of these goods has been transferred to the member. The Company satisfies its performance obligations related to member assessments for operating expenditures upon board approval.

The Company recognizes the satisfaction of the membership and facility use services performance obligations over time by measuring the progress toward the complete satisfaction of these performance obligations. The Company has determined that the most appropriate method for measuring the progress toward complete satisfaction of these performance obligations is the output method which is determined by directly measuring the value to the customer of the services transferred to date, relative to the remaining services promised in the contract. Utilizing the output method, the Company determines the progress of membership or facility use services that have been provided as a basis for recognizing the standalone selling prices of completed performance obligations. The Company has established a contract liability for billings or payments received in advance of services being provided to members. This contract liability is classified as deferred membership dues in the consolidated statements of financial position. The Company believes it is able to make reasonable estimates of the extent of progress toward completion.

The capital assessment revenue recognizes revenue over time as performance obligations are satisfied, using the cost-to-cost input method, based primarily on contract costs incurred to date compared to total estimated contracted costs. Under this method, revenues, including estimated earned fees are recorded as costs are incurred. Contract costs include direct materials, direct labor costs related to contract performance. These costs are included in construction in progress in property and equipment, net of the consolidated financial position.

As part of the adoption of Topic 606, the Company has elected the following practical expedients provided for in the standard.

1) The Company has elected to not adjust the promised amount of consideration for the effect of a significant financing component if it expects, at contract inception, that the period between the Company's transfer of a promised good or service to a customer and the customer's payment for that good or service will be one year or less.

2) The Company is excluding from its transaction price all sales and similar taxes collected from its customers.

3) The portfolio approach has been elected by the Company as it expects any effects of adoption would not be materially different in application at the portfolio level compared with the application at an individual contract level.

4) The Company has elected the "right to invoice" expedient which states that for performance obligations satisfied over time, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, the entity may recognize revenue in the amount to which the entity has a right to invoice.

5) The Company has elected not to disclose information about its remaining performance obligations for any contract that has an original expected duration of one year or less.

Neither the type of service sold nor the location of sale significantly impacts the nature, amount, timing, or uncertainty of revenue and cash flows.

Inventory

Inventory consists primarily of food and beverage; golf, spa and tennis merchandise, and is stated at the lower of cost or net realizable value. The total inventory as of June 30, 2023 and 2022 was $393,840 and $684,257, respectively.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives, which range from three to 40 years. Expenditures for maintenance and repairs are charged to income as incurred. Additions and betterments are capitalized. The cost of property and equipment sold or otherwise disposed of, and the accumulated depreciation thereon, is eliminated from the property and reserve accounts, and gains and losses are reflected in the consolidated statements of activities.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset.

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment charges recognized during the fiscal years ended June 30, 2023 and 2022.

Contract Liability Membership Dues

The Company invoices member dues annually, semi-annually, quarterly or monthly at the member's discretion. Contract liability membership dues are amounts billed or collected in advance.

Contract Liability Transfers of Memberships

The Company recognizes transfers of a membership revenue over the estimated life of a membership. The contract liability transfers of memberships are the remaining balances of revenue from transfer income to be recognized over the estimated life.

Contract Liability of Capital Assessment Revenue

Cash received from members in excess of revenue recognized is recorded as a contract liability of capital assessment revenue. The golf course is expected to be completed in October 2023.

Debt Financing Costs

In August 2021, the Company entered into a loan and security agreements with B1 Bank (Note 6). In connection with the debt refinancing with B1 Bank, the Company incurred $152,026 of debt issuance costs in connection to bank fees associated with the refinancing. The debt costs were allocated all to the term note. These costs were being capitalized and amortized on a straight-line basis over the terms of the underlying obligation and are included in interest on borrowings, which approximates the effective interest rate method. Deferred financing costs related to the B1 Bank draw facility are presented as a direct reduction to the carrying amount of debt, net of accumulated amortization (Note 7). For the fiscal years ended June 30, 2023 and 2022, total amortization expense related to deferred financing fees were $15,203 and $3,993, respectively.

Income Taxes

The Company accounts for income taxes utilizing the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. Valuation allowances are established when necessary to reduce the deferred tax assets to the amount that is more likely than not to be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The Company has unused net operating losses which may be used until the statute of limitations expire (which may be as much as 20 years).

The Company's tax positions are subject to income tax audits in the jurisdictions in which it operates. As of June 30, 2023 and 2022, there are no known items which would result in a material accrual related to a federal or state tax position. The Company is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years prior to 2018.

3. Inventory

Inventory consists of the following at June 30, 2023 and 2022:

	2023	2022
Food and beverage	$ 197,685	$ 229,184
Golf, spa and tennis merchandise	196,155	238,518
	$ 393,840	$ 467,702

4. Property and Equipment, Net

Property and equipment consists of the following at June 30, 2023 and 2022:

	2023	2022
Building and improvements	$ 32,338,567	$ 32,180,450
Golf course and water system	14,514,060	14,430,919
Furniture and fixtures	3,501,281	3,475,978
Machinery, equipment and vehicles	8,451,017	8,179,991
Land	8,569,281	8,569,281
Construction in progress	20,681,118	2,381,036
	88,055,324	69,217,655
Less accumulated depreciation	(35,541,713)	(33,074,068)
Property and equipment, net	$ 52,513,611	$ 36,143,587

Depreciation expense for property and equipment totaled $2,467,645 and $2,742,964 for the fiscal years ended June 30, 2023 and 2022, respectively.

5. Accrued Expenses

Accrued expenses consist of the following as of June 30, 2023 and 2022:

	2023	2022
Construction in progress materials and equipment received, not yet invoiced	$ 651,978	$ -
Accrued payroll	391,569	294,319
Accrued vacation	230,397	218,940
Property tax accrual	70,173	72,523
Sales, use and other tax accrual	56,723	64,264
Accrued bonus	99,167	144,167
Gift certificates	96,243	99,908
Other accrued expenses	640,506	293,291
	$ 2,236,756	$ 1,187,412

6. Long-Term Debt

Plains Capital Line of Credit

The line of credit provides for a borrowing base of $1,500,000 and maturity date of November 11, 2021. Interest rate is the greater of the prime rate or 3.25%. The line of credit is collateralized by all assets and requires compliance of certain affirmative covenants as well as reporting requirements. The line of credit was terminated in the fiscal year ended June 30, 2022.

Plains Capital Note Payable

The Company entered into a promissory note with Plains Capital Bank in January 2016 for $12,500,000 with an interest rate of 3.35%. In 2018 the note was amended to increase the amount of withdrawals to $13,689,000, and to extend the withdrawal maturity date to September 2, 2018. Payments of monthly principal and interest totaling to $105,329 begin in August 2018. The last payment on January 2026 includes a balloon payment for all remaining interest and principal. The promissory note was paid in full and extinguished from the funds received in August 2021 from the B1 Bank draw facility.

B1 Bank

On August 20, 2021, the Company entered into a new Loan and Security Agreement (LSA) to provide a $20,000,000 draw facility and a $1,000,000 revolving line of credit. The draw facility was used to pay off the existing debt with Plains Capital Bank and provide additional funding for the planned golf course renovation project. The Company drew the first $10,343,724 on the effective date of the loan to pay off the existing Plains Capital debt. During the fiscal year ended June 30, 2023, the Company drew an additional amount of $3,267,658. The only funds will be available as construction work progresses. The draw facility calls for monthly interest only payments through December 31, 2023. Commencing January 20, 2024, principal and interest payments will be due over an amortization period of 240 months. One final payment for all outstanding principal and interest will be due on August 20, 2031.

Prior to August 20, 2026 or an event of default, all debt facilities bear interest at the lessor of 3.25% or the maximum rate, as defined in the agreement. Commencing on August 20, 2026, all debt facilities bear the fixed interest at the lessor of the maximum rate or the prime rate as of the rate change date plus 0.25%.

At June 30, 2023 and 2022, the outstanding balance on the draw facility was $11,762,969 and $9,510,765, respectively. The balance outstanding on the line of credit was $0 at June 30, 2023 and 2022.

The following is the current and long-term portion of notes payable, net of the current portion and deferred financing costs at June 30, 2023 and 2022:

	2023	2022
Note payable principal outstanding	$ 11,762,969	$ 9,510,765
Less unamortized deferred financing costs	(129,222)	(148,033)
Note payable, net	11,633,747	9,362,732
Less current portion	(294,074)	-
Note payable, net of current portion	$ 11,339,673	$ 9,362,732

Future principal maturities of the draw facility are as follows:

Years ending June 30:	
2024	$ 294,074
2025	588,148
2026	588,148
2027	588,148
2028	588,148
Thereafter	9,116,303
Total minimum payments	$ 11,762,969

Equipment Notes Payable

In November 2017, February 2018 and February 2020 the Company entered into loan agreements with equipment finance companies for equipment. For the notes, the terms range from 60 to 63 months with monthly payments ranging from $567 to $1,060. The equipment notes are due from October 2022 to January 2025. The balance outstanding for equipment notes payable as of June 30, 2023 and 2022, were $21,065 and $41,346, respectively.

Future principal maturities of equipment notes payable are as follows:

Years ending June 30:		
2024	$	12,487
2025		8,578
Total minimum payments	$	21,065

7. Commitment and Contingencies

Operating Leases, Prior to July 1, 2022

The Company leases certain equipment under operating agreements with third parties. The leases have various expirations through 2026. Rent expense for fiscal year ended June 30, 2022 totaled $1,026,772.

Operating Leases, July 1, 2022 and After

Right-of-use assets represent the Company's right to use an underlying asset for the lease term, while lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Company's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Company's sole discretion. The Company regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Company includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Company uses the rate implicit in the lease, or if not readily available, the Company uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with the Company's long-lived asset policy. The Company reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Company made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Company:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Company obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;

- Determined whether contracts contain embedded leases;

- Evaluated leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio of leases, whether to apply the portfolio approach to such leases;

- Determined for leases that contain a residual value guarantee, whether a payment at the end of the lease term was probable and, accordingly, whether to consider the amount of a residual value guarantee in future lease payments;

- Allocated consideration in the contract between lease and nonlease components.

The Company does not have any material leasing transactions with related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of June 30, 2023:

Operating lease right-of-use assets	$ 1,035,614
Operating lease liabilities:	
Current	625,898
Long-term	409,716
Total operating lease liabilities	$ 1,035,614

Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2023:

Operating lease expense	$ 612,411
Short-term lease expense	528,189
Total lease expense	$ 1,140,600

The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 3.09%. As of June 30, 2023, the weighted average remaining lease term was 2.14 years.

The table below summarizes the Company's scheduled future minimum lease payments for years ending after June 30, 2023:

Years ending June 30:	
2024	$ 648,319
2025	280,196
2026	94,452
2027	38,712
2028	8,630
Thereafter	-
Total lease payments	1,070,309
Less present value discount	(34,695)
Total lease liabilities	1,035,614
Less current portion	(625,898)
Long-term lease liabilities	$ 409,716

The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	612,411

8. Members' Equity

The Club is composed of members rather than shareholders and therefore has no capital stock. Initiation fees for new golf and social memberships are credited to members' equity. On all matters to be voted upon by the members of the Club, golf members are entitled to two votes per membership and social members are entitled to one vote. As of June 30, 2023, the Club Articles and Bylaws allow for 324 refundable golf memberships, 60 refundable social memberships and 29 nonrefundable golf memberships.

The golf refundable memberships, nonrefundable golf memberships, social memberships and membership in treasury are as follows for fiscal years ended June 30, 2023 and 2022:

	Refundable Social Memberships	Refundable Golf Memberships	Nonrefundable Golf Memberships	Treasury in Social Membership	Treasury in Golf Membership
Balance, June 30, 2021	60	321	32	-	32
Social membership issued from treasury	-	-	-	-	-
Golf membership issued from treasury	-	-	-	-	-
Transfer membership from social to golf membership	(1)	1	-	-	-
Transfer membership from golf to social membership	1	(1)	-	-	-
Delinquent and terminated members	-	-	-	-	-
Balance, June 30, 2022	60	321	32	-	32
Social membership issued from treasury	-	-	-	-	-
Golf membership issued from treasury	-	-	-	-	-
Transfer membership from social to golf membership	(4)	4	-	-	-
Transfer membership from golf to social membership	4	(4)	-	-	-
Retired non-refundable golf memberships in exchange for refundable golf memberships	-	3	(3)		
Delinquent and terminated members	-	-	-	-	-
Balance, June 30, 2023	60	324	29	-	32

Membership Resignations and Transfers

The Club Articles and Bylaws were amended during the fiscal year ended June 30, 2018 to adjust the refund percentage on new or transferred golf memberships from 80% of their membership contribution to 50% upon resignation and reissuance of the membership. Additionally, the refund percentage for social memberships issued or transferred was also reduced from 80% to 50%. Golf and social memberships issued prior to the amendment are entitled to 80% until the transfer event. Memberships are transferable through the club for a transfer fee which is recorded as a transfer fee revenue on the consolidated statements of activities. The obligation to refund a member's contribution upon the reissuance of the membership to a new member shall be subject to offset for all amounts due to the club which remain unpaid as of the date of reissuance of resigned membership.

At June 30, 2023 and 2022, the Company had zero members on the resigned list. At June 30, 2023, the Company had a waitlist for 58 potential members (46 golf memberships and 12 social memberships). The waitlist requires a 20% down payment of the membership cost and is deemed non-refundable once approved by the members of the board. These down payments at June 30, 2023 totaled $1,978,700 on the consolidated statements of financial position.

Delinquent and Terminated Membership

At June 30, 2023 and 2022, the Company had no accounts receivable balances from members which the club did not expect to fully collect.

The board may terminate and void a member's refund should their account become delinquent in excess of 120 days. No members were terminated during the fiscal years ended June 30, 2023 and 2022.

9. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The most significant component of the Company's deferred tax assets and deferred tax liabilities were temporary differences related to net operating income, deferred revenue and depreciation.

The Codification requires the Company to periodically assess whether it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical losses and its outlook for future years. At June 30, 2023 and 2022, management established a full valuation allowance for its net deferred tax assets as realization of the deferred tax assets is not reasonably assured based on a more-likely-than-not threshold.

The provision for income tax expense was $186,918 and $72,767 for the fiscal years ended June 30, 2023 and 2022, respectively. The tax expense was all related to state tax expense.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes consisted of the following at June 30, 2023 and 2022:

	2023	2022
Deferred tax assets (liabilities)		
Depreciation	$ 217,971	$ 179,623
Deferred income	2,186,510	3,891,531
Other	105,122	(1,772,637)
Net operating loss carryforward	73,220	73,220
Section 277 carryforward	156,707	3,142,212
Total deferred tax assets	2,739,531	5,513,949
Valuation allowance	(2,739,531)	(5,513,949)
Net deferred tax assets (liabilities)	$ -	$ -

The Company's net deferred tax assets include amounts of net operating loss carryforwards totaling $348,669 for federal and state income tax purposes as of June 30, 2023 and 2022 which begins to expire in 2031. The Company also has a section 277 carryforward attribute to transaction with members which do not have an expiration date.

10. Related-Party Transactions

From time to time, the Company purchases services, goods or property from companies owned or affiliated with current and former members or employees. The Company also leases golf carts to certain members under one year noncancelable leases.

The Company entered into various related party services in the normal course of operations from companies associated with three members that totaled $30,472 for the fiscal year ended June 30, 2023. The Company entered into various related party services in the normal course of operations from companies associated with eight members that totaled $62,572 for the fiscal year ended June 30, 2022.

11. Employee Benefit Plan

The Company has a defined contribution retirement 401(k) plan, the (Retirement Plan), which provides a long-term savings program to all eligible employees of the Company. Under the Retirement Plan, employees may contribute a portion of their pre-tax salaries and the Company can, at its discretion, make contributions to the Retirement Plan. Participants may invest their contributions in various publicly traded investment funds. The Retirement Plan is administered by a third-party service provider, and all administrative expense are paid by the Company.

For fiscal years ended June 30, 2023 and 2022, the Company paid matching contribution to the Vaquero Club 401(k) and Profit Sharing Plan totaling $144,295 and $76,372, respectively.

12. Subsequent Events

The Company evaluated all material events or transactions that occurred after June 30, 2023 through September 20, 2023, the date these financial statements were ready to be issued, and determined if an such events or transactions would impact the consolidated financial statements for the year ended June 30, 2023.

In September 2023, the Company terminated equipment leases. The Company entered into new equipment leases with monthly payments of $45,663 commencing upon receipt of equipment and matures four years after the commencement date.