

Vaquero Club, Inc. and Subsidiary

Consolidated Financial Statements

June 30, 2025 and 2024

Vaquero Club, Inc. and Subsidiary

Table of Contents
June 30, 2025 and 2024

	<u>Page</u>
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, 2025 and 2024, 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, 2025 and 2024, 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.

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 consolidated 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 consolidated 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

Frisco, Texas
September 25, 2025

Vaquero Club, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 19,330,884	\$ 17,517,913
Restricted cash	-	165,553
Member receivables	3,650,044	3,412,566
Inventory, net	719,457	471,097
Prepaid net expenses and other current assets	695,521	552,450
	<hr/>	<hr/>
Total current assets	24,395,906	22,119,579
Property and Equipment, Net	55,382,682	55,337,268
Right-of-Use Asset Operating Lease, Net	2,198,926	2,827,490
	<hr/>	<hr/>
Total assets	<u>\$ 81,977,514</u>	<u>\$ 80,284,337</u>
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	\$ 658,940	\$ 1,638,939
Accrued expenses	1,659,367	1,204,904
Contract liability membership dues	17,702,719	16,635,360
Current portion of contract liability transfers of memberships	1,953,850	1,758,617
Current portion of equipment notes payable	-	5,337
Current portion of note payable	578,582	668,944
Current portion of operating lease liabilities	869,248	903,847
Wait list deposits	2,289,400	2,373,700
Other current liabilities	293,375	245,382
	<hr/>	<hr/>
Total current liabilities	26,005,481	25,435,030
Contract Liability Transfers of Memberships, Net of Current Portion	8,138,520	7,819,364
Note Payable, Net of Current Portion and Debt Discount	10,899,301	12,600,987
Operating Lease Liabilities, Net of Current Portion	1,329,678	1,923,643
	<hr/>	<hr/>
Total liabilities	46,372,980	47,779,024
Members' Equity	35,604,534	32,505,313
	<hr/>	<hr/>
Total liabilities and members' equity	<u>\$ 81,977,514</u>	<u>\$ 80,284,337</u>

See notes to consolidated financial statements

Vaquero Club, Inc. and Subsidiary

Consolidated Statements of Activities

Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Revenues		
Member dues and fees	\$ 17,863,973	\$ 13,073,273
Food, beverage and banquet	3,053,396	3,094,301
Golf, tennis, fitness and spa	2,681,235	1,187,425
Debt service dues	1,937,030	1,919,745
Tennis and golf merchandise	1,214,978	957,701
Members' services	1,300,344	1,329,106
Service fees and other	711,424	752,454
Transfer fees	2,180,611	1,819,901
Capital assessment revenue	-	1,312,587
	<u>30,942,991</u>	<u>25,446,493</u>
Operating Expenses		
Salaries, wages and benefits	11,832,166	10,339,821
Depreciation	2,426,322	2,269,702
General and administrative	2,200,274	1,805,396
Rent expense	1,372,942	1,069,561
Cost of food, beverages and sundries	1,938,491	1,733,223
Utilities and occupancy	2,180,445	2,217,675
Landscape maintenance	841,392	849,744
Cost of merchandise sales	832,853	624,586
Club supplies	555,332	509,042
Golf operations, special events and tournaments	1,204,341	408,308
Repairs and maintenance	364,298	424,581
Service fees	685,704	740,895
Linens, laundry and cleaning	161,826	92,283
	<u>26,596,386</u>	<u>23,084,817</u>
Total operating expenses	<u>26,596,386</u>	<u>23,084,817</u>
Income from operations	4,346,605	2,361,676
Other Income (Expense)		
Interest expense, net	(244,300)	(153,107)
Other income, net	308,407	5,578
	<u>64,107</u>	<u>(147,529)</u>
Total other income (expense)	<u>64,107</u>	<u>(147,529)</u>
Excess of revenue over expenses before taxes	4,410,712	2,214,147
Income Tax Expense		
	<u>(153,053)</u>	<u>(113,420)</u>
Excess of revenues over expenses after tax	<u>\$ 4,257,659</u>	<u>\$ 2,100,727</u>

See notes to consolidated financial statements

Vaquero Club, Inc. and Subsidiary

Consolidated Statements of Changes in Members' Equity
Years Ended June 30, 2025 and 2024

	<u>Memberships Capital</u>	<u>Accumulated Deficit</u>	<u>Total Members' Equity</u>
Balance, June 30, 2023	\$ 64,511,689	\$ (33,152,103)	\$ 31,359,586
Member contributions	1,695,000	-	1,695,000
Member distributions	(2,650,000)	-	(2,650,000)
Excess of revenues over expenses after taxes	<u>-</u>	<u>2,100,727</u>	<u>2,100,727</u>
Balance, June 30, 2024	63,556,689	(31,051,376)	32,505,313
Member contributions	1,232,000	-	1,232,000
Member distributions	(2,390,438)	-	(2,390,438)
Excess of revenues over expenses after taxes	<u>-</u>	<u>4,257,659</u>	<u>4,257,659</u>
Balance, June 30, 2025	<u>\$ 62,398,251</u>	<u>\$ (26,793,717)</u>	<u>\$ 35,604,534</u>

See notes to consolidated financial statements

Vaquero Club, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Excess of revenues over expenses	\$ 4,257,659	\$ 2,100,727
Adjustments to reconcile excess of revenues over expenses provided by operating activities:		
Depreciation	2,426,322	2,269,702
Amortization of debt issuance costs	15,203	20,270
Noncash lease expense	960,334	703,388
Provision for inventory reserve	38,755	-
Bad debt expense	1,858	54,610
Changes in operating assets and liabilities:		
Member receivables	(239,336)	(1,343,076)
Inventory	(287,115)	(77,257)
Prepaid expenses and other assets	(143,071)	(25,706)
Accounts payable	(979,999)	1,341,943
Accrued expenses	454,463	(1,031,852)
Contract liability membership dues	1,067,359	4,786,253
Contract liability transfers of memberships	514,389	785,099
Contract liability of capital assessment revenue	-	(1,333,367)
Wait list deposits	(84,300)	395,000
Operating lease liabilities	(960,334)	(703,388)
Other liabilities	47,993	8,471
Net cash provided by operating activities	<u>7,090,180</u>	<u>7,950,817</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(2,471,736)</u>	<u>(5,093,359)</u>
Net cash used in investing activities	<u>(2,471,736)</u>	<u>(5,093,359)</u>
Cash Flows From Financing Activities		
Payments on note payable	(1,807,251)	(1,318,166)
Proceeds from note payable	-	2,934,080
Payments on equipment notes payable	(5,337)	(15,728)
Member contributions	1,232,000	1,695,000
Member distributions	<u>(2,390,438)</u>	<u>(2,650,000)</u>
Net cash (used in) provided by financing activities	<u>(2,971,026)</u>	<u>645,186</u>
Net change in cash and cash equivalents and restricted cash	1,647,418	3,502,644
Cash and Cash Equivalents and Restricted Cash, Beginning	<u>17,683,466</u>	<u>14,180,822</u>
Cash and Cash Equivalents and Restricted Cash, Ending	<u>\$ 19,330,884</u>	<u>\$ 17,683,466</u>
Supplemental Information		
Cash paid for interest	<u>\$ 229,097</u>	<u>\$ 147,529</u>
Cash paid for taxes	<u>\$ 108,725</u>	<u>\$ 185,462</u>
Noncash Financing Activities		
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 331,767</u>	<u>\$ 2,766,595</u>

See notes to consolidated financial statements

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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 (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 consolidated 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 July 2025, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2025-05, *Measurement of Credit Losses for Accounts Receivable and Contract Assets*. ASU No. 2025-05 provides all entities with a practical expedient and entities other than public business entities with an accounting policy election when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, *Revenue from Contracts with Customers*. ASU No. 2025-05 is effective for annual reporting periods (including interim reporting periods within annual reporting periods) beginning after December 15, 2025. Early adoption is permitted. The Company is currently assessing the effect that ASU No. 2025-05 will have on its results of operations, financial position and cash flows.

Reclassification

Certain reclassifications have been made to the prior year reported amounts related to the classification of restricted cash and cash and cash equivalents presented on the consolidated balance sheets. The classifications do that 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, 2025 and 2024 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.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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 related to capital assessment funds as of June 30, 2025 and 2024 was \$0 and \$165,553, 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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 19,330,884	\$ 17,517,913
Restricted cash	-	165,553
Total	<u>\$ 19,330,884</u>	<u>\$ 17,683,466</u>

Member Receivables and Credit Losses

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 recognizes an allowance for credit losses for member receivables to present the net amount expected to be collected as of the consolidated 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 consolidated balance sheet date. 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 Company also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The Company utilizes the loss rate method in determining its lifetime expected credit losses on its receivables. This method is used for calculating an estimate of losses based primarily on the Company's historical loss experience. In determining its loss rates, the Company evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, the member's creditworthiness, changes in the terms of receivables, effect of other external forces such as competition, and legal and regulatory requirements on the level of estimated credit losses in the existing receivables. For receivables that are not expected to be collected within the normal business cycle, the Company considers current and forecasted direction of the economic and business environment.

In accordance with disclosure requirements under FASB Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, accounts receivable at July 1, 2023 was \$2,819,778.

As of June 30, 2025 and 2024, management reviewed the status of member receivables and determined no allowance for credit losses was necessary. For the fiscal years ended June 30, 2025 and 2024, the Company recorded a bad debt expense of \$1,858 and \$54,610, respectively.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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, 2025 and 2024.

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 comprised 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.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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, 2025 and 2024 was \$719,457 and \$471,097, 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 3 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, 2025 and 2024.

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. In accordance with disclosure requirement under FASB ASC Topic 606, contract liabilities relating to membership dues at July 1, 2023 was \$11,849,107.

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. In accordance with disclosure requirement under FASB ASC Topic 606, contract liabilities relating to transfer of memberships at July 1, 2023 was \$8,792,882.

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 was completed in October 2023. In accordance with disclosure requirement under FASB ASC Topic 606, contract liabilities relating to capital assessment revenue at July 1, 2023 was \$1,333,367.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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 6). For the fiscal years ended June 30, 2025 and 2024, total amortization expense related to deferred financing fees were \$15,203 and \$20,270, 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, 2025 and 2024, 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, Net

Inventory, net consists of the following at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Food and beverage	\$ 258,961	\$ 228,161
Golf, spa and tennis merchandise	499,251	242,936
Inventory allowance	<u>(38,755)</u>	<u>-</u>
Inventory, net	<u>\$ 719,457</u>	<u>\$ 471,097</u>

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2025 and 2024

4. Property and Equipment, Net

Property and equipment, net consists of the following at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Building and improvements	\$ 36,527,572	\$ 35,893,215
Golf course and water system	35,872,469	35,799,141
Furniture and fixtures	4,255,111	4,063,345
Machinery, equipment and vehicles	9,659,541	8,803,430
Land	8,710,124	8,569,281
Construction in progress	560,129	-
	<u>95,584,946</u>	<u>93,128,412</u>
Less accumulated depreciation	<u>(40,202,264)</u>	<u>(37,791,144)</u>
Property and equipment, net	<u>\$ 55,382,682</u>	<u>\$ 55,337,268</u>

Depreciation expense for property and equipment totaled \$2,426,322 and \$2,269,702 for the fiscal years ended June 30, 2025 and 2024, respectively.

5. Accrued Expenses

Accrued expenses consist of the following as of June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Accrued payroll	518,018	428,184
Accrued vacation	205,240	194,052
Property tax accrual	72,588	67,958
Sales, use and other tax accrual	49,631	88,941
Accrued bonus	46,290	-
Gift certificates	91,019	93,892
Other accrued expenses	676,581	331,877
	<u>\$ 1,659,367</u>	<u>\$ 1,204,904</u>

6. Long-Term Debt

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, 2024, the Company drew additional amounts of \$2,934,080. As of June 30, 2024, the Company is no longer able to draw on the facility. 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.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Prior to August 20, 2026 or an event of default, all debt facilities bear interest at the lesser 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 lesser of the maximum rate or the prime rate as of the rate change date plus 0.25%.

At June 30, 2025 and 2024, the outstanding balance on the draw facility was \$11,571,633 and \$13,378,883, respectively. The balance outstanding on the line of credit was \$0 at June 30, 2025 and 2024.

The following is the current and long-term portion of notes payable, net of the current portion and deferred financing costs at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Note payable principal outstanding	\$ 11,571,633	\$ 13,378,883
Less unamortized deferred financing costs	(93,750)	(108,952)
Note payable, net	11,477,883	13,269,931
Less current portion	(578,582)	(668,944)
Note payable, net of current portion	<u>\$ 10,899,301</u>	<u>\$ 12,600,987</u>

Future principal maturities of the draw facility are as follows:

Years ending June 30:	
2026	\$ 578,582
2027	578,582
2028	578,582
2029	578,582
2030	578,582
Thereafter	<u>8,678,723</u>
Total minimum payments	<u>\$ 11,571,633</u>

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 in January 2025. The balance outstanding for equipment notes payable as of June 30, 2025 and 2024, were \$0 and \$5,337, respectively.

7. Commitment and Contingencies

Litigation

From time to time, the Company is involved in various legal matters in the ordinary course of business. The Company is currently going through a sales tax audit with the state of Texas for the period of August 2021 to October 2024. In the opinion of management as of the report date, the ultimate liability, if any, resulting from such legal matter will not have a material effect on the Company's financial position or results of operations.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Operating Leases

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:

	<u>2025</u>	<u>2024</u>
Operating lease right-of-use assets	\$ 2,198,926	\$ 2,827,490
Operating lease liabilities:		
Current	\$ 869,248	\$ 903,847
Long-term	1,329,678	1,923,643
Total operating lease liabilities	<u>\$ 2,198,926</u>	<u>\$ 2,827,490</u>

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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

	<u>2025</u>	<u>2024</u>
Operating lease expense	\$ 1,063,368	\$ 756,993
Short-term lease expense	309,574	615,062
Total lease expense	<u>\$ 1,372,942</u>	<u>\$ 1,372,055</u>

As of June 30, 2025 and 2024, the right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 4.09% and 4.04%, respectively. As of June 30, 2025 and 2024, the weighted average remaining lease term were 2.52 and 3.38 years, respectively.

The table below summarizes the Company's scheduled future minimum lease payments for years ending after June 30, 2025:

Years ending June 30:	
2026	\$ 942,729
2027	886,989
2028	481,466
2029	6,834
Total lease payments	2,318,018
Less present value discount	<u>(119,092)</u>
Total lease liabilities	2,198,926
Less current portion	<u>(869,248)</u>
Long-term lease liabilities	<u>\$ 1,329,678</u>

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

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,063,368	\$ 756,933
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	331,767	2,766,595

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, 2025, the Club Articles and Bylaws allow for 326 refundable golf memberships, 65 refundable social memberships and, 27 nonrefundable golf memberships. As of June 30, 2024, the Club Articles and Bylaws allow for 326 refundable golf memberships, 64 refundable social memberships and 27 nonrefundable golf memberships.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

The golf refundable memberships, nonrefundable golf memberships, social memberships and membership in treasury are as follows for fiscal years ended June 30, 2025 and 2024:

	Refundable Social Memberships	Refundable Golf Memberships	Nonrefundable Golf Memberships	Treasury in Social Membership	Treasury in Golf Membership
Balance, June 30, 2023	60	325	28	-	32
Authorized memberships	4	-	-	-	-
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)	-	-	-
Retired nonrefundable golf memberships in exchange for refundable golf memberships	-	1	(1)	-	-
Delinquent and terminated members	-	-	-	-	-
Balance, June 30, 2024	64	326	27	-	32
Authorized memberships	-	-	-	-	-
Social membership issued from treasury	1	-	-	-	-
Golf membership issued from treasury	-	-	-	-	-
Transfer membership from social to golf membership	-	-	-	-	-
Transfer membership from golf to social membership	-	-	-	-	-
Retired nonrefundable golf memberships in exchange for refundable golf memberships	-	-	-	-	-
Delinquent and terminated members	-	-	-	-	-
Balance, June 30, 2025	65	326	27	-	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.

During the fiscal year ended June 30, 2024, the Club Articles and Bylaws were amended to adjust the refund percentage on new or transferred golf memberships from 50% of their membership contribution to 30% upon resignation and reissuance of the membership. Additionally, the refund percentage for social memberships issued or transferred was also reduced from 50% to 30%. Golf and social memberships issued prior to the amendment are entitled to 80% or 50% until the transfer event.

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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, 2025 and 2024, the Company had zero members on the resigned list. At June 30, 2025, the Company had a waitlist for 62 potential members (44 golf memberships and 18 social memberships). The waitlist requires a 20% down payment of the membership cost and is deemed nonrefundable once approved by the members of the board inclusive of an administrative nonrefundable payment which is either \$2,000 or \$3,000. These down payments at June 30, 2025 totaled \$2,289,400 on the consolidated statement of financial position.

Delinquent and Terminated Membership

At June 30, 2025 and 2024, 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, 2025 and 2024.

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, 2025 and 2024, 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 \$153,053 and \$113,420 for the fiscal years ended June 30, 2025 and 2024, 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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Deferred tax assets (liabilities)		
Depreciation	\$ (2,730,174)	\$ (313,774)
Deferred income	2,179,195	2,068,126
Other	90,895	64,345
Net operating loss carryforward	73,220	73,220
Section 277 carryforward	1,726,156	372,597
Total deferred tax assets	<u>1,339,292</u>	<u>2,264,514</u>
Valuation allowance	<u>(1,339,292)</u>	<u>(2,264,514)</u>
Net deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>

Vaquero Club, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2025 and 2024

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, 2025 and 2024 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 six members that totaled \$143,567 for the fiscal year ended June 30, 2025. The Company entered into various related party services in the normal course of operations from companies associated with nine members that totaled \$415,287 for the fiscal year ended June 30, 2024.

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, 2025 and 2024, the Company paid matching contribution to the Vaquero Club 401(k) and Profit Sharing Plan totaling \$188,739 and \$134,356, respectively.

12. Subsequent Events

The Company evaluated all material events or transactions that occurred after June 30, 2025 through September 25, 2025, the date these consolidated financial statements were ready to be issued and determined there were no events or transactions which would impact these financial statements.