

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

**Combined Financial Statements
and
Supplementary Information
for years ended
March 31, 2023
and
March 31, 2022**

Table of Contents

	Page
Independent Auditor's Report	1
Combined Statements of Financial Position	3
Combined Statements of Activities	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6
Independent Auditor's Report on Supplementary Information	12
Food and Beverage Statistics	13

Independent Auditor's Report

To the Board of Governors of The Trail Club, Inc.
and
Board of Directors of Trail Properties, Inc.

Opinion

We have audited the accompanying combined financial statements of The Trail Club, Inc. and Trail Properties, Inc. (collectively, the "Club"), which comprise the combined statements of financial position as of March 31, 2023 and March 31, 2022 and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Club as of March 31, 2023 and March 31, 2022 and the results of their combined activities and their combined 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Club 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 Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards 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 combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined 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 Club'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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Club'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.

Condon O'Meara McGinty + Donnelly LLP

July 19, 2023

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.
Combined Statements of Activities**

	Year Ended March 31							
	2023				2022			
	Operating Fund	General Improvement Fund	Debt Service Fund	Total All Funds	Operating Funds	General Improvement Fund	Debt Service Fund	Total All Funds
Revenue								
Membership dues	\$ 1,273,331	\$ 292,800	\$ -	\$ 1,566,131	\$ 1,213,554	\$ 293,400	\$ -	\$ 1,506,954
Initiation fees	-	96,750	-	96,750	-	142,000	-	142,000
Debt service assessments	-	-	145,517	145,517	-	-	144,317	144,317
Food and beverage	424,202	-	-	424,202	412,152	-	-	412,152
Lodge and farmhouse rentals	11,431	-	-	11,431	10,735	-	-	10,735
Water consumption and pumping charges	62,986	-	-	62,986	59,138	-	-	59,138
Cabin service charges	171,136	-	-	171,136	177,190	-	-	177,190
Stable	148,476	-	-	148,476	218,700	-	-	218,700
Camp and other childrens' activities fees	126,128	-	-	126,128	113,464	-	-	113,464
Trapshooting	1,147	-	-	1,147	1,078	-	-	1,078
Dock and locker rentals	12,159	-	-	12,159	9,867	-	-	9,867
Tennis, paddle tennis and croquet	513,481	-	-	513,481	403,706	-	-	403,706
Garage rentals	18,375	-	-	18,375	19,600	-	-	19,600
Transfer and rental fees	-	102,789	-	102,789	-	172,844	-	172,844
Employee retention credits	-	-	-	-	315,932	-	-	315,932
Other (bank interest, facility and late payment fees, other member charges and firewood)	51,375	46,477	3,061	100,913	89,861	205	32	90,098
Total revenue	<u>2,814,227</u>	<u>538,816</u>	<u>148,578</u>	<u>3,501,621</u>	<u>3,044,977</u>	<u>608,449</u>	<u>144,349</u>	<u>3,797,775</u>
Costs and expenses								
Cost of sales	185,896	-	-	185,896	195,845	-	-	195,845
Payroll and related	1,439,128	-	-	1,439,128	1,243,541	-	-	1,243,541
Other expenses								
Food and beverages	80,385	-	-	80,385	72,912	-	-	72,912
Lodges	46,566	-	-	46,566	48,105	-	-	48,105
Water service	34,336	-	-	34,336	24,972	-	-	24,972
Stables	103,502	-	-	103,502	133,145	-	-	133,145
Children's day camp	17,213	-	-	17,213	22,430	-	-	22,430
Trapshooting	2,246	-	-	2,246	1,527	-	-	1,527
Beach activities and fishing	10,316	-	-	10,316	12,875	-	-	12,875
Tennis, paddle tennis and croquet	411,918	-	-	411,918	299,333	-	-	299,333
Fishing	1,250	-	-	1,250	1,150	-	-	1,150
Entertainment	23,155	-	-	23,155	24,882	-	-	24,882
Office	52,515	-	-	52,515	53,945	-	-	53,945
Clubhouse	42,272	-	-	42,272	27,685	-	-	27,685
General	202,740	-	-	202,740	140,904	-	-	140,904
Grounds, repairs and maintenance	125,904	-	-	125,904	109,574	-	-	109,574
Real estate taxes	268,404	-	-	268,404	216,048	-	-	216,048
Administration fee	-	-	114	114	4,492	-	225	4,717
Interest	6,375	-	27,247	33,622	12,502	-	24,996	37,498
Insurance	135,381	-	-	135,381	122,781	-	-	122,781
Total other expenses	<u>1,564,478</u>	<u>-</u>	<u>27,361</u>	<u>1,591,839</u>	<u>1,329,262</u>	<u>-</u>	<u>25,221</u>	<u>1,354,483</u>
Total costs and expenses	<u>3,189,502</u>	<u>-</u>	<u>27,361</u>	<u>3,216,863</u>	<u>2,768,648</u>	<u>-</u>	<u>25,221</u>	<u>2,793,869</u>
Excess (deficiency) before depreciation	(375,275)	538,816	121,217	284,758	276,329	608,449	119,128	1,003,906
Depreciation	<u>335,317</u>	<u>-</u>	<u>-</u>	<u>335,317</u>	<u>400,734</u>	<u>-</u>	<u>-</u>	<u>400,734</u>
Excess (deficiency) before transfers	(710,592)	538,816	121,217	(50,559)	(124,405)	608,449	119,128	603,172
Transfer for principal payments on long-term debt financed by debt service fund	121,482	-	(121,482)	-	117,248	-	(117,248)	-
Transfer for capital additions financed by the improvement fund	206,807	(206,807)	-	-	297,331	(297,331)	-	-
Increase (decrease) in net assets	(382,303)	332,009	(265)	(50,559)	290,174	311,118	1,880	603,172
Net assets, beginning of year	<u>6,934,200</u>	<u>1,466,603</u>	<u>230,861</u>	<u>8,631,664</u>	<u>6,644,026</u>	<u>1,155,485</u>	<u>228,981</u>	<u>8,028,492</u>
Net assets, end of year	<u>\$ 6,551,897</u>	<u>\$ 1,798,612</u>	<u>\$ 230,596</u>	<u>\$ 8,581,105</u>	<u>\$ 6,934,200</u>	<u>\$ 1,466,603</u>	<u>\$ 230,861</u>	<u>\$ 8,631,664</u>

See notes to combined financial statements.

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.
Combined Statements of Cash Flows**

	Year Ended March 31	
	2023	2022
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (50,559)	\$ 603,172
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	335,317	400,734
Net revenues generated for improvements and debt repayment	(660,033)	(727,577)
Gain on sale of property – net	(13,366)	-
(Increase) decrease in current assets		
Accounts receivable, net	(47,685)	72,657
Inventories	4,320	(10,470)
Prepaid expenses	(15,395)	(28,926)
Escrow deposit	(7,138)	(1,571)
Increase (decrease) in current liabilities		
Accounts payable	(57,824)	(49,873)
Taxes payable and accrued	24,452	(4,804)
Accrued expenses	22,674	(12,701)
Net cash provided by (used in) operating activities	(465,237)	240,641
Cash flows from investing activities		
Proceeds from sale of property – net	1,013,615	-
Capital expenditures financed by improvement fund	(206,807)	(297,331)
Net cash provided by (used in) investing activities	806,808	(297,331)
Cash flows from financing activities		
Revenue generated for improvements and debt repayment – net	660,033	727,577
Repayments of long-term debt	(631,482)	(117,248)
Net cash provided by financing activities	28,551	610,329
Net increase in cash and cash equivalents	370,122	553,639
Cash and cash equivalents, beginning of year	2,418,425	1,864,786
Cash and cash equivalents, end of year	\$ 2,788,547	\$ 2,418,425
Consists of:		
Operating fund	\$ 958,508	\$ 912,992
Designated for general improvement and debt service funds	1,830,039	1,505,433
Total	\$ 2,788,547	\$ 2,418,425
Supplemental disclosure of cash flows information:		
Cash paid for interest	\$ 27,247	\$ 24,996

See notes to combined financial statements.

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

**Notes to Combined Financial Statements
March 31, 2023 and March 31, 2022**

Note 1 – Principle of combination, nature of organizations and summary of significant accounting policies

Name change

During the 2022 fiscal year, the Gipsy Trail Club, Inc. changed its name to The Trail Club, Inc.

Net assets

The Club's net assets are without donor restrictions and its resources are available to support operations.

Principle of combination

The combined financial statements include the accounts of The Trail Club, Inc. (the "Club") and Trail Properties, Inc. The common stock of Trail Properties, Inc. is owned by the members of the Club. As of March 31, 2023 and March 31, 2022, the Club owned 8,611.95 shares or 76.96% of the outstanding preferred stock of Trail Properties, Inc. All intercompany accounts and transactions have been eliminated in the combination.

Nature of organizations

The Club was founded in 1924 for the promotion of the social and physical welfare of its members. The Club operates a lodge, dining room, tennis courts, stables, commodores' club, beach, trap shooting, trails and winter sports. The Club is funded by dues, fees and charges to its members for the use of the facilities.

Trail Properties, Inc., which was incorporated in 1934 in the State of New York, holds title to certain of the land, buildings, improvements, equipment and furnishings, which are used by the Club.

Revenue recognition

Membership dues are recognized as revenue in the applicable membership period. For the 2023 and 2022 fiscal years, \$292,800 and \$293,400, respectively, of membership dues was allocated to the general improvement fund. Initiation fees are recognized as revenue of the general improvement fund. The assessments to repay debt incurred for the two water system loans are recognized as revenue of the debt service fund. The Club has determined that it has met the performance obligation related to membership dues, initiation fees and the assessments and there are no future services to be provided.

Food, beverage, tennis, paddle tennis and croquet and other revenue items are recognized as revenue when earned, which is at the time of sale or when the services are provided.

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

**Notes to Combined Financial Statements (continued)
March 31, 2023 and March 31, 2022**

Note 1 – Principle of combination, nature of organizations and summary of significant accounting policies (continued)

Property and equipment

The Club and Trail Properties, Inc. capitalizes, as property and equipment, expenditures for assets in excess of \$3,000. Depreciation of property and equipment is being provided on the straight-line basis on the estimated useful lives of the assets, which range from 5 to 39 years.

Cash equivalents

The Club considers cash equivalents to be highly liquid investments with original maturities of ninety days or less from the date of acquisition.

Allowance for doubtful accounts

As of March 31, 2023 and March 31, 2022, the Club had an allowance for any potentially uncollectible accounts receivable totaling \$143,000 and \$100,000, respectively. Such estimate is based on management's experience, the aged basis of the receivables, subsequent receipts and current economic conditions.

Concentrations of credit risk

The Club's combined financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Club places its cash and cash equivalents with what it believes to be quality financial institutions and the Club has not incurred any losses in such accounts to date. The Club's accounts receivable consist principally of amounts due from members. The Club believes no significant concentrations of credit risk exist with respect to its cash, cash equivalents and accounts receivable.

Use of estimates

The preparation of combined 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 amounts reported in the combined financial statements. Actual results could differ from these estimates.

General improvement fund

The Club maintains the general improvement fund to finance capital additions. Initiation fees, transfer and rental fees, a portion of the dues and interest earned on general improvement funds are credited to the fund.

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

**Notes to Combined Financial Statements (continued)
March 31, 2023 and March 31, 2022**

Note 1 – Principle of combination, nature of organizations and summary of significant accounting policies (continued)

Debt service fund

In connection with the replacement and enhancement of the water distribution system, the Club has debt service assessments which are credited to the fund. The fund is used to pay principal and interest on the loans obtained to finance the water distribution system.

Subsequent events

The Club has evaluated events and transactions for potential recognition or disclosure through July 19, 2023, which is the date the combined financial statements were available to be issued.

Note 2 – Liquidity and availability of financial assets

The Club's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts from dues and other revenue items.

The following is a summary of the Club's financial assets available for expenditures within one year of March 31, 2023 and March 31, 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,788,547	\$ 2,418,425
Accounts receivables, net	<u>101,815</u>	<u>54,130</u>
Total	<u>\$ 2,890,362</u>	<u>\$ 2,472,555</u>

Note 3 – Property acquisition and sale

On March 22, 2021, the Club acquired a 63-acre site adjacent to existing Club property for a purchase price of \$999,999. The site includes a residence of approximately 5,000 square feet plus several smaller out-buildings. The acquired property will be used for general Club purposes. As described in Note 4, a portion of the purchase price was financed from the proceeds of Member Lending Notes.

On April 27, 2022, the Club sold the 63-acre site described above to a Member of the Club for a sale price of \$999,999 and a portion of the sale proceeds was used to fully pay down the balance of the Member Lending Notes. Pursuant to the terms of the transaction, the Club has the right to repurchase a portion of the land from the Member on or before April 27, 2027, subject to terms set forth in the transaction documents and subject to obtaining required subdivision approvals from the Town of Kent. Regardless of whether the Club exercises the right to repurchase, the Club retains access to portions of the land in perpetuity for the Club's recreational activities.

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

**Notes to Combined Financial Statements (continued)
March 31, 2023 and March 31, 2022**

Note 4 – Long-term debt

Water System Loan #1

During the 2003 fiscal year, the Club obtained a \$1,558,340 term loan, which was used to fund costs in connection with the replacement of the water distribution system. The loan, which matured May 15, 2023, requires semi-annual interest payments at the fixed rate of 3.13% per annum. Principal payments were due on May 15th of each year. The Club made monthly payments into an escrow account, which were used to make the principal and interest payments on the loan. On March 31, 2023, this escrow account balance amounted to \$199,169 and included a security deposit of \$105,822 plus the interest earned on such deposit.

The loan was fully repaid on the maturity date, the Promissory Note was cancelled, and the escrow balance was released.

Water System Loan #2

During the 2014 fiscal year, the Club obtained a \$460,000 term loan, which was used to fund costs in connection with the enhancement of the water distribution system. The loan which matures January 15, 2024, requires monthly payments of \$3,054 applicable first to interest at the fixed rate of 5% per annum with the balance to the reduction of principal, based on a 20 year amortization.

Member Lending Notes

On March 8, 2021, to facilitate the purchase of the property described in Note 3, the Club entered into a loan participation agreement with 17 participants. Each participant is either a Member of the Club or the spouse of a Member and has committed to loan the Club a maximum of \$70,588 with a combined amount of \$1,199,996. On March 8, 2021, the Club drew down \$510,000 of Member Lending Notes to partially finance the Club's purchase of the property described in Note 3. On September 1, 2022, the Club fully paid down the balance of the Member Lending Notes. The loan bears a fixed annual interest rate of 2.5%, payable every September 1 and March 1. The terms of the loan participation agreement allow the Club to request additional advances on any interest payment date through March 1, 2025. In the event that additional advances are drawn down, one half of the principal then outstanding will be due in March 2026 and March 2027.

Note 5 – Common and preferred stock

According to the by-laws of the Club, each cabin owner is required to own one share of common stock of Trail Properties, Inc.

There are 11,190.69 shares of preferred stock outstanding, of which 8,611.95 shares, which were eliminated in the combined financial statements, are held by the Club. Preferred stock is entitled in liquidation to \$100 per share and cumulative dividends of \$5.00 per share per year from November 1, 1934 on the original 3,190.69 shares and \$5.00 per share per year from November 1, 1995 on the 8,000 additional shares issued during the 1995 fiscal year. The amount of such dividends totaled \$2,539,856 on the 11,190.69 shares outstanding. Of the amount of such dividends, \$1,392,318 represents cumulative dividends on the 8,611.95 shares held by the Club.

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

**Notes to Combined Financial Statements (continued)
March 31, 2023 and March 31, 2022**

Note 6 – 401(k) plan

The Club has a 401(k) retirement plan, which is available to all eligible employees. Participants may contribute up to 15% of eligible compensation, not to exceed the limitations established by the Internal Revenue Code. The Club can make discretionary matching contributions each year of up to 3.0% of the employee’s compensation. For the 2023 and 2022 fiscal years, respectively, the Club’s contributions to the plan amounted to \$36,750 and \$24,430.

Note 7 – Functional expenses

The following is a summary of the Club’s functional expenses for the years ended March 31, 2023 and March 31, 2022:

	<u>2023</u>		
	<u>Programs</u>	<u>Office</u>	<u>Total</u>
Cost of sales	\$ 185,896	\$ -	\$ 185,896
Payroll and related	1,098,963	340,165	1,439,128
Other departmental expenses	1,539,324	52,515	1,591,839
Depreciation	<u>335,317</u>	<u>-</u>	<u>335,317</u>
Total	<u>\$ 3,159,500</u>	<u>\$ 392,680</u>	<u>\$3,552,180</u>
	<u>2022</u>		
	<u>Programs</u>	<u>Office</u>	<u>Total</u>
Cost of sales	\$ 195,845	\$ -	\$ 195,845
Payroll and related	924,096	319,445	1,243,541
Other departmental expenses	1,265,538	53,945	1,319,483
Depreciation	<u>400,734</u>	<u>-</u>	<u>400,734</u>
Total	<u>\$ 2,786,213</u>	<u>\$ 373,390</u>	<u>\$3,159,603</u>

Note 8 – Employee retention credits

In response to the coronavirus emergency, the Coronavirus Aid, Relief and Economic Security Act and subsequent legislation were signed into law (the “Acts”). The Acts provided a refundable credit of certain qualified wages per employee for wages paid or incurred from March 13, 2020 through September 30, 2021. In connection therewith, such credits through March 31, 2022 totaled \$315,932 and are reflected as revenue on the combined statements of activities.

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

**Notes to Combined Financial Statements (continued)
March 31, 2023 and March 31, 2022**

Note 9 – Tax status

The Club is exempt from Federal income taxes under Section 501(c)(7) of the Internal Revenue Code except as to a tax on its net unrelated business income. Provision for such taxes has been made in the combined financial statements.

Trail Properties, Inc.'s Federal income tax return reflects no tax liability for the 2023 fiscal year. In addition, as of March 31, 2022, Trail Properties, Inc. has available as an offset against future taxable income, if any, net operating loss carryforwards of approximately \$682,000. These net operating loss carryforwards, expire in varying amounts and years through the year 2041.

Independent Auditor's Report on Supplementary Information

To the Board of Governors of The Trail Club, Inc.
and
Board of Directors of Trail Properties, Inc.

Our audits for the years ended March 31, 2023 and March 31, 2022 were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The information on page 13 is presented for purposes of additional analysis, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in our audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Condon O'Meara McGinty + Donnelly LLP

July 19, 2023

**THE TRAIL CLUB, INC.
AND
TRAIL PROPERTIES, INC.**

Food and Beverage Statistics

	Year Ended March 31	
	<u>2023</u>	<u>2022</u>
Food sales	100%	100%
Cost of food sold	<u>48</u>	<u>55</u>
Food gross profit	<u>52</u>	<u>45</u>
Beverage sales	100	100
Cost of beverages sold	<u>43</u>	<u>43</u>
Beverage gross profit	<u>57</u>	<u>57</u>
Food and beverage sales	100	100
Cost of food and beverages sold	<u>48</u>	<u>53</u>
Total gross profit	52	47
Other revenue – unused minimum charges and other	<u>10</u>	<u>11</u>
Total gross profit and other revenue	<u>62</u>	<u>58</u>
Departmental expenses		
Payroll and related expenses, net of undistributed service charge	83	70
Other expenses	<u>13</u>	<u>10</u>
Total departmental expenses	<u>96</u>	<u>80</u>
Departmental net (loss)	<u>(34)%</u>	<u>(22)%</u>