
HIGHWOOD GOLF AND COUNTRY CLUB

FINANCIAL STATEMENTS

Year Ended October 31, 2010

HIGHWOOD GOLF AND COUNTRY CLUB

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Year Ended October 31, 2010

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SCASE & LIVELY
PROFESSIONAL ACCOUNTANTS

AUDITORS' REPORT

To the Members of Highwood Golf and Country Club

We have audited the balance sheet of Highwood Golf and Country Club as at October 31, 2010 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the club's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the club as at October 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Nanton, Alberta

November 17, 2010

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HIGHWOOD GOLF AND COUNTRY CLUB

**Balance Sheet
October 31, 2010**

	2010	2009
ASSETS		
CURRENT		
Cash (Note 4)	\$ -	\$ 324,246
Term deposits (Note 4)	-	502,342
Accounts receivable	177,593	81,890
Inventory	201,383	228,085
Prepaid expenses	30,523	25,387
	409,499	1,161,950
PROPERTY AND EQUIPMENT (Note 3)	7,178,930	3,332,128
	\$ 7,588,429	\$ 4,494,078
LIABILITIES AND MEMBERS' EQUITY		
CURRENT		
Bank indebtedness (Note 4)	\$ 145,960	\$ 269,000
Accounts payable	417,754	295,183
Current portion of long term debt (Note 5)	95,000	-
Current portion of obligations under capital lease (Note 6)	140,000	160,250
Current portion of unearned revenue and member deposits	8,513	39,641
	807,227	764,074
LONG TERM DEBT (Note 5)	3,333,025	-
OBLIGATIONS UNDER CAPITAL LEASE (Note 6)	182,751	322,877
UNEARNED REVENUE AND MEMBER DEPOSITS	14,133	-
	4,337,136	1,086,951
MEMBERS' EQUITY		
Share capital (Note 7)	92,800	92,800
Contributed surplus	4,076,115	4,076,115
Deficit	(917,622)	(761,788)
	3,251,293	3,407,127
	\$ 7,588,429	\$ 4,494,078

ON BEHALF OF THE BOARD

_____ Director

_____ Director

See notes to financial statements

HIGHWOOD GOLF AND COUNTRY CLUB**Statement of Loss and Deficit****Year Ended October 31, 2010**

	2010	2009
REVENUE		
Membership fees and dues	\$ 1,670,234	\$ 1,501,504
Golf Operations <i>(Schedule 1)</i>	539,112	551,863
Green fees and tournaments	406,898	455,667
Food and Beverage <i>(Schedule 2)</i>	90,660	76,446
Entrance and capital fees	25,452	22,150
Other sales	17,659	9,086
	2,750,015	2,616,716
GOLF OPERATIONS - COST OF SALES <i>(Schedule 1)</i>	216,361	261,519
GROSS PROFIT	2,533,654	2,355,197
EXPENSES		
Grounds expenses <i>(Schedule 3)</i>	1,214,667	1,340,204
Golf Operations <i>(Schedule 1)</i>	417,821	369,369
Administrative expenses <i>(Schedule 4)</i>	365,591	323,041
Clubhouse expenses <i>(Schedule 5)</i>	80,491	80,470
Property taxes	25,537	23,981
Food and Beverage <i>(Schedule 2)</i>	17,805	29,400
	2,121,912	2,166,465
INCOME FROM OPERATIONS	411,742	188,732
OTHER INCOME (EXPENSES)		
Interest income	10,916	25,064
Gain (loss) on disposal of assets	(8,272)	1,950
Interest and bank charges	(34,836)	(46,599)
Interest on long-term debt	(65,583)	-
Amortization	(460,027)	(486,627)
	(557,802)	(506,212)
LOSS BEFORE INCOME TAXES	(146,060)	(317,480)
INCOME TAXES	9,774	76
NET LOSS FOR THE YEAR	(155,834)	(317,556)
DEFICIT - BEGINNING OF YEAR	(761,788)	(444,232)
DEFICIT - END OF YEAR	\$ (917,622)	\$ (761,788)

See notes to financial statements

HIGHWOOD GOLF AND COUNTRY CLUB**Statement of Cash Flows
Year Ended October 31, 2010**

	2010	2009
OPERATING ACTIVITIES		
Net loss	\$ (155,834)	\$ (317,556)
Items not affecting cash:		
Amortization of property, plant and equipment	460,027	486,627
Loss (gain) on disposal of assets	8,272	(1,950)
	312,465	167,121
Changes in non-cash working capital:		
Accounts receivable	(95,703)	29,785
Accrued casino earnings	-	46,837
Inventory	26,702	(49,506)
Prepaid expenses	(5,136)	(691)
Accounts payable	122,573	91,176
Current portion of unearned revenue and member deposits	(31,128)	(59,215)
	17,308	58,386
Cash flow from operating activities	329,773	225,507
INVESTING ACTIVITIES		
Purchase of property and equipment	(4,327,180)	(420,895)
Proceeds on disposal of property and equipment	12,077	1,950
Cash flow used by investing activities	(4,315,103)	(418,945)
FINANCING ACTIVITIES		
Unearned revenue and member deposits	14,133	-
Proceeds from long term financing	3,428,025	-
Repayment of obligations under capital lease	(160,376)	(147,193)
Repurchase of shares	-	(100)
Contributed surplus	-	(4,000)
Cash flow from (used by) financing activities	3,281,782	(151,293)
DECREASE IN CASH FLOW	(703,548)	(344,731)
Cash - beginning of year	557,588	902,319
CASH (DEFICIENCY) - END OF YEAR (Note 4)	\$ (145,960)	\$ 557,588

See notes to financial statements

1. NATURE OF OPERATIONS

Highwood Golf and Country Club was incorporated under the Companies Act of the Province of Alberta on August 15, 1958. The club is a semi-private, not-for-profit golf course in High River, Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Non-consolidation

Certain member sponsored groups (e.g. Men's Club, Ladies Club, Junior Golf, etc.) use the facilities of the Club. The assets, liabilities, revenues and expenses of these groups are not consolidated with those of the Club as they operate independently of the Club.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Property and equipment

Property and equipment are recorded at cost, except for donated assets which are recorded at estimated fair market values when acquired. The Club provides for amortization using the declining balance method at rates designed to amortize the cost of the property and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	5%
Equipment	20%
Furniture and fixtures	20%
Grounds improvements	5%
Irrigation	20%
Parking lot	10%

The Club regularly reviews its property and equipment to eliminate obsolete items.

Property and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Revenue recognition

The Club recognizes revenues from memberships evenly over the golf season. Green fees, tournaments, pro shop and food and beverage are recognized once the service has been provided.

Unrestricted contributions are recognized as revenue in the period in which entitlement arises. Contributions received for a future period are deferred until such time as the corresponding expenditures are incurred.

Interest income is recognized as it is earned.

Government assistance

Government assistance for current expenses is recorded as a reduction of the related expenditures. Government assistance for acquiring property and equipment is recorded as a reduction of the cost of the related assets.

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HIGHWOOD GOLF AND COUNTRY CLUB**Notes to Financial Statements****Year Ended October 31, 2010****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments

Financial assets and liabilities are initially recognized and subsequently measured based on their classification. The Club has designated its cash and cash equivalents as held-for-trading and, as such, these financial assets are measured at fair value. Gains and losses realized on disposal, unrealized gains and losses from market fluctuations and other investment income are reported in the Statement of Operations. Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities and the current portion of long-term debt are classified as other liabilities and are measured at amortized cost using the effective interest method.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land purchased	\$ 9,861	\$ -	\$ 9,861	\$ 9,861
Donated Land	434,250	-	434,250	434,250
Buildings	4,381,129	228,415	4,152,714	544,443
Grounds improvements	3,068,355	1,697,917	1,370,438	1,404,249
Equipment	1,975,262	1,276,175	699,087	846,337
Irrigation	616,116	583,860	32,256	40,320
Furniture and fixtures	607,406	141,056	466,350	36,062
Parking lot	84,822	70,848	13,974	16,606
	\$ 11,177,201	\$ 3,998,271	\$ 7,178,930	\$ 3,332,128

Subsequent to year-end, the Club disposed of certain buildings for no proceeds. Amortization expense for the year includes a write-down of \$151,575 to fully amortize these assets. Since these assets are completely amortized at year-end, they are not included in the cost and accumulated amortization above.

During the year, \$58,280 was raised by various fund-raising efforts to be used to offset the costs of a new clubhouse that was built. The cost of buildings as shown above has been reduced by this amount.

Included in equipment are assets under capital lease with a net book value of \$403,571 (2009 - \$504,588). During the year, the club recorded \$101,017 (2009 - \$126,147) in amortization expense related to these assets.

HIGHWOOD GOLF AND COUNTRY CLUB**Notes to Financial Statements****Year Ended October 31, 2010****4. BANK INDEBTEDNESS**

	2010	2009
Cash (Overdraft)	\$ (13,960)	\$ 324,246
Term deposits	-	502,342
Bank indebtedness	(132,000)	(269,000)
	\$ (145,960)	\$ 557,588

The revolving operating loan is due on demand and has a maximum borrowing capacity of \$500,000 for the period from October 1 to March 1, reducing to \$350,000 for the remainder of the year. Interest is at Royal Bank prime plus 1.25% (2009 - prime plus 1.25%).

Security provided on the above loan consists of a general security agreement creating a first charge on present and after acquired property of the Club, a letter of undertaking confirming the Club will not dispose of or encumber any property owned by the Club without prior written approval of the bank, a collateral mortgage in the amount of \$2,000,000 creating a second fixed charge on lands and improvements and a specific assignment of insurance proceeds.

5. LONG TERM DEBT

	2010	2009
Bank West loan bearing interest at prime plus 1.5% per annum, repayable in 8 equal blended monthly payments of \$9,090 from February 1 to September 30 annually and amortized over 20 years.	\$ 1,000,000	\$ -
Bank West loan bearing interest at 6% per annum, repayable in 8 equal blended monthly payments of \$24,446 from February 1 to September 30 annually and amortized over 25 years.	2,428,025	-
	3,428,025	-
Amounts payable within one year	(95,000)	-
	\$ 3,333,025	\$ -

Principal repayment terms are approximately:

2011	\$ 95,000
2012	77,000
2013	81,000
2014	86,000
2015	91,000
Thereafter	2,998,025

These loans are secured by a general security agreement creating a second charge on present and after acquired property of the Club, a collateral mortgage in the amount of \$4,000,000 creating a first fixed charge on lands and improvements and a specific assignment of insurance proceeds.

HIGHWOOD GOLF AND COUNTRY CLUB

Notes to Financial Statements

Year Ended October 31, 2010

6. OBLIGATIONS UNDER CAPITAL LEASE

	2010	2009
National leasing capitalized equipment lease bearing interest at 9.258% per annum, repayable in 6 monthly blended payments of \$5,395 from May to October of each year. The lease matures on November 1, 2013.	\$ 105,889	\$ 127,098
National leasing capitalized equipment lease bearing interest at 7.914% per annum, repayable in 6 monthly blended payments of \$5,600 from May to October of each year. The lease matures on November 1, 2011.	71,921	98,282
National leasing capitalized equipment lease bearing interest at 8.017% per annum, repayable in 6 monthly blended payments of \$3,575 from May to October of each year. The lease matures on November 1, 2012.	38,865	56,162
National leasing capitalized equipment lease bearing interest at 7.55% per annum, repayable in 6 monthly blended payments of \$4,880 from May to October of each year. The lease matures on November 1, 2011.	27,643	53,345
National leasing capitalized equipment lease bearing interest at 8.501% per annum, repayable in 6 monthly blended payments of \$2,850 from May to October of each year. The lease matures on October 1, 2012.	30,807	44,425
National leasing capitalized equipment lease bearing interest at 7.49% per annum, repayable in 6 monthly blended payments of \$1,677 from May to October of each year. The lease matures on November 1, 2011.	28,229	35,766
National leasing capitalized equipment lease bearing interest at 8.01% per annum, repayable in 6 monthly blended payments of \$2,980 from May to October of each year. The lease matures on November 1, 2012.	19,397	34,781
Lease completed during year	-	33,268
	322,751	483,127
Amounts payable within one year	(140,000)	(160,250)
	\$ 182,751	\$ 322,877

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HIGHWOOD GOLF AND COUNTRY CLUB**Notes to Financial Statements****Year Ended October 31, 2010****6. OBLIGATIONS UNDER CAPITAL LEASE (continued)**

	2010	2009
Future minimum capital lease payments are approximately:		
2011	\$ 140,000	
2012	125,000	
2013	28,000	
2014	29,751	
Total future minimum lease payments	<u>\$ 322,751</u>	

These leases are secured by assets having a net book value of \$403,571 (2009 - \$504,588).

7. SHARE CAPITAL

Authorized:

1000	Common voting shares, par value \$100 each	2010	2009
Issued:			
567	Class A shares (2009 - 551 shares)	\$ 56,700	\$ 55,100
361	Class B shares (2009 - 377 shares)	36,100	37,700
		<u>\$ 92,800</u>	<u>\$ 92,800</u>

The Club acts as the transfer agent on share transactions by issuing new share certificates to the purchasers and cancelling the share certificates of the sellers. The Club no longer issues Class B share certificates. When a Class B share changes ownership, it is reissued as a Class A share.

During the year, 16 (2009 - 23) Class A shares were issued for transfers and outside trades.

8. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Assets purchased under capital lease	\$ -	\$ 149,788
Interest paid on capital leases	34,835	46,599
Interest income	10,916	25,064
Interest paid on long-term debt	65,583	-
Income taxes paid	9,774	76

9. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Club is exposed to credit risk to the extent that its members may experience financial difficulty and would be unable to meet their obligations. However, the Club has a large number of diverse members which minimizes concentration of credit risk.

Interest Rate

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Club manages exposure through its normal operating and financing activities. The Club is exposed to interest rate risk primarily through fluctuations in interest rates on its debt facilities.

Fair Value

The Club's carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates its fair value due to the immediate or short term maturity of these instruments.

10. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

HIGHWOOD GOLF AND COUNTRY CLUB**Golf Operations***(Schedule 1)***Year Ended October 31, 2010**

	2010	2009
SALES		
Pro shop sales	\$ 273,266	\$ 270,045
Cart rentals	177,193	199,128
Trail fees	34,666	32,163
Club storage	12,862	15,281
Lessons	13,956	6,472
Driving range	13,521	13,294
Cart storage and repair	11,481	11,851
Introductory fee	2,167	3,629
	539,112	551,863
COST OF SALES		
Pro shop cost of sales	208,712	255,901
Freight	7,649	5,618
	216,361	261,519
GROSS MARGIN	322,751	290,344
EXPENSES		
Wages and benefits	303,994	258,177
Repairs and maintenance	34,928	39,842
Supplies	34,379	21,389
Telephone and utilities	10,599	10,504
Advertising and promotion	8,917	4,881
Tee time booking system	7,587	7,652
Cart rentals	6,897	9,357
Travel and training	5,267	4,348
Subcontractors	3,475	10,879
Insurance	1,778	2,340
	417,821	369,369
LOSS FROM OPERATIONS	\$ (95,070)	\$ (79,025)

See notes to financial statements

HIGHWOOD GOLF AND COUNTRY CLUB**Food and Beverage (Schedule 2)****Year Ended October 31, 2010**

	2010	2009
TRADE SALES		
Catering lease	\$ 77,246	\$ 61,788
Clubhouse food and beverage minimum	7,769	10,782
Facility rental	5,645	3,876
	90,660	76,446
EXPENSES		
Repairs and maintenance	8,282	11,438
Utilities	7,200	7,200
Supplies	1,850	10,041
Wages	473	721
	17,805	29,400
INCOME FROM OPERATIONS	\$ 72,855	\$ 47,046

See notes to financial statements

HIGHWOOD GOLF AND COUNTRY CLUB**Grounds expenses (Schedule 3)****Year Ended October 31, 2010**

	2010	2009
Wages and employee benefits	\$ 847,270	\$ 901,443
Supplies	160,188	198,200
Repairs and maintenance	84,092	115,473
Gas and oil	41,314	36,346
Contract work	36,942	33,881
Telephone and utilities	32,941	38,428
Travel and training	9,556	13,958
Association dues	2,364	2,475
	\$ 1,214,667	\$ 1,340,204

Administrative expenses (Schedule 4)

	2010	2009
Wages and employee benefits	\$ 203,520	\$ 194,636
Interest and bank charges	45,498	38,319
Office and printing	31,943	25,999
Professional fees	30,863	14,925
Insurance	24,314	21,344
Advertising	17,225	13,062
Director's expenses	3,856	2,649
Postage	2,858	5,739
Travel and training	2,342	2,661
Dues and licences	1,658	1,485
Vehicle expenses	785	744
Bad debts	729	1,478
	\$ 365,591	\$ 323,041

Clubhouse expenses (Schedule 5)

	2010	2009
Telephone and utilities	\$ 40,961	\$ 39,976
Janitorial	14,914	11,582
Security	9,828	9,481
Repairs and maintenance	5,500	10,783
Supplies	4,955	3,398
Promotion	4,333	5,250
	\$ 80,491	\$ 80,470