

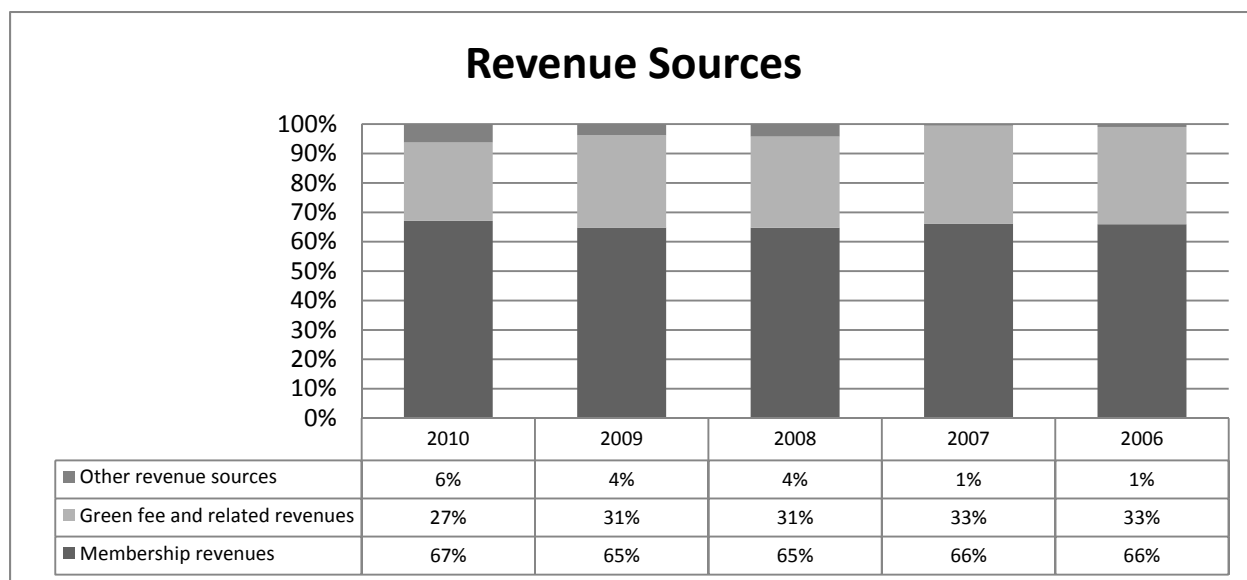
## 2010 Financial Report

As Gerry and Doug have both mentioned in their reports, the operations of the club was impacted significantly by the weather in 2010. Through a reduction in pro shop sales, green fee revenue and cart rentals, the weather meant the club earned about \$115,000 less in revenues in the year.

### Overview

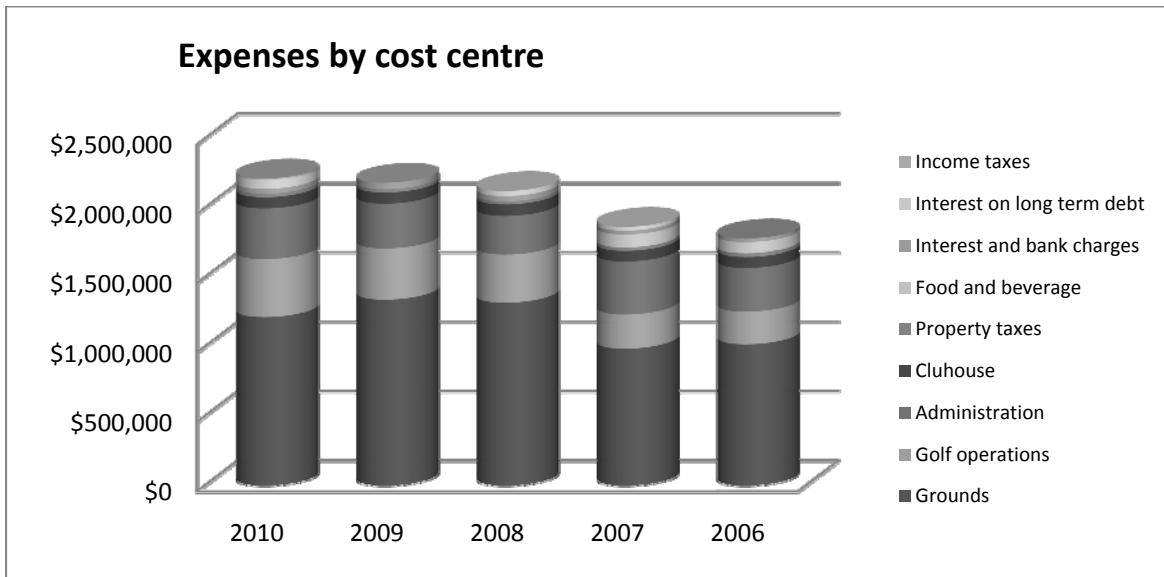
Our financial operations consist of revenues, expenditures and capital reinvestment. I have provided a series of graphs to assist the members in understanding how these three items interact.

As you can see from the following chart, the club relies on green fee and related revenues to support the costs of operating the facility.

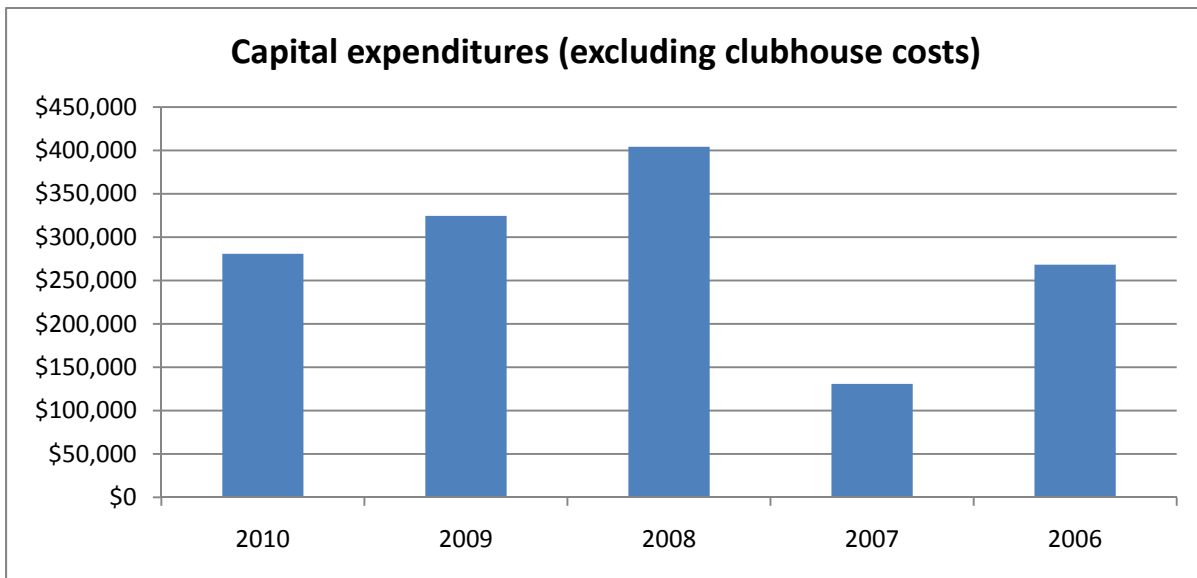


As a result of the weather, the contribution from green fees dropped to 27% of our total revenues. Unlike for profit businesses, the ability to generate revenues from other sources is limited for the golf club. As a result, when revenue budgets are not realized, the only option the club has is to cut costs. This becomes very difficult when, in an effort to keep membership fee increases to a minimum, expenditure budgets are already at near minimum levels.

The following graph summarizes the club's annual expenditures by cost centre. As the graph demonstrates, grounds expense is the club's largest cost centre. Through thoughtful planning and careful monitoring, our superintendent, Patrick Legg has been able deliver superior course conditions with a smaller budget. Golf operations increased between 2007 and 2008 when the club took over pro shop operations.



Capital reinvestment is also a very important part of the financial strategy of the golf club. It is important that the club fund capital expenditures annually. If we delay or reduce our investment in capital, it will impact on future operations. The following chart summarizes capital expenditures over the past 5 years. As you see from the graph, capital expenditures in 2006 and 2007 were quite low. As a result additional funds had to be provided in 2008 and 2009 to catch up. Management believes that a capital reinvestment of between \$250,000 and \$300,000 annually should be provided for.



Our financial results over the past 5 years are summarized as follows:

	2010	2009	2008	2007	2006
<b>Revenue</b>					
Membership dues	1,670,234	1,501,504	1,328,626	1,152,701	1,036,400
Entrance fees	25,452	22,150	90,267	138,000	37,800
Pro shop sales (net)	56,905	8,526		-	
Cart rentals & other pro shop	265,846	281,818	272,640	256,255	210,553
Green fee and tournament	406,898	455,667	407,202	393,669	328,374
Food and beverage (net)	67,210	43,170	45,652		
Other	34,220	38,026	47,349	10,792	15,427
	<u>2,526,765</u>	<u>2,350,861</u>	<u>2,191,736</u>	<u>1,951,417</u>	<u>1,628,554</u>
<b>Expense</b>					
Grounds	1,214,667	1,340,204	1,318,466	986,959	1,018,613
Golf operations	417,821	369,369	346,980	246,410	235,396
Administration	365,591	323,041	278,730	382,290	314,726
Clubhouse	80,491	80,470	82,728	76,707	78,426
Property taxes	25,537	23,981	22,500	24,416	27,717
Food and beverage				93,600	80,772
Interest and bank charges	34,836	46,599	37,922	27,694	26,389
Interest on long term debt	65,583		36,488	27,174	
Income taxes	9,774	76			
	<u>2,214,300</u>	<u>2,183,740</u>	<u>2,123,814</u>	<u>1,865,250</u>	<u>1,782,039</u>
Income (loss) before depreciation	312,465	167,121	67,922	86,167	(153,485)
Capital expenditures (excluding clubhouse costs)	280,792	324,498	404,157	130,696	268,279
Net deficiency from operations and capital reinvestment	31,673	(157,377)	(336,235)	(44,529)	(421,764)
Membership fee allocated to clubhouse costs	(116,500)				
<b>Net deficiency for the year</b>	<u><b>\$(84,827)</b></u>	<u><b>(\$157,377)</b></u>	<u><b>(\$336,235)</b></u>	<u><b>(\$44,529)</b></u>	<u><b>(\$421,764)</b></u>

The fees collected from the members for the clubhouse mortgage have been included above as membership dues. This is because for accounting purposes these fees represent an annual charge that the membership pays and is part of our ongoing revenues. The fees collected have been used to pay costs associated with the mortgage (interest and legal fees) which totalled \$75,000 in the 2010 fiscal year. The remaining \$116,500 has been used to fund the actual clubhouse expenditures.

After adjusting for the membership fees allocated to the clubhouse, the operations provided cash of \$196,000 to fund capital items in 2010 (\$312,465 above less \$116,500 clubhouse fee). Our total capital purchases (excluding the clubhouse expenditures) were \$281,000, leaving us with a shortfall of \$85,000.

### Cash Position

As is evident from the above financial summary, the club is generally able to cover operating costs on an annual basis. We have not, however been able to cover the costs needed for capital. The amounts expended annually for capital items include current capital as well as capital lease payments. Capital leases are an effective way to acquire capital assets when cash flow is not available immediately. This was an effective strategy for the club in the past as we recovered from the devastating effect that the flood of 2005 had on the club's finances. The future strategy of the club is to fund capital expenditures from current operations unless there is a compelling reason to do otherwise.

The end result of the past five years deficiencies are that the club is now in a position that requires very careful cash management. Cash reserves are nonexistent and the club finds itself having to draw on its line of credit at October 31, 2010. This is in part due to the above deficiencies, and in part to the costs of the new clubhouse.

\$4.45 million was expended on the new clubhouse to the end of October 2010. \$3.5 million has been funded from mortgage proceeds and \$750,000 from insurance proceeds received in 2008 leaving a short fall of \$200,000. To cover this, fundraising activities provided \$58,000 and the membership clubhouse mortgage fee provided \$116,000.

A year ago, we knew that we had to draw on funds that we had intended to set aside as a reserve for future flood costs but believed that we could recover that through operations. Today we are less optimistic. There are too many variables that come to play in managing the revenues and costs of the golf club. I therefore, must regrettably report that the club does not have any reserve funds and unless we can realize additional revenues we will be unable to set funds aside in the near future.

The following summary is provided to assist the membership in understanding how the club has managed its cash reserves since November 2007.

#### **Synopsis of Cash November 1, 2007 to October 31, 2010**

Insurance funds received 2008	\$1,450,000.00
50/50 share proceeds received 2008	\$580,000.00
Repay Operating loan, November 1 2007	-\$350,000.00
Repay Term loan, November 1, 2007	-\$300,000.00
Deficiency 2008	-\$340,000.00
Deficiency 2009	-\$160,000.00
Pumphouse funded from insurance in 2009	-\$108,000.00
Clubhouse funding	-\$750,000.00
Deficiency 2010	-\$85,000.00
Clubhouse overage to October 2010	-\$26,000.00
Operating loan, October 31, 2010	-\$89,000.00

As a result, we have had to draw on our operating line. We anticipate that additional costs of approximately \$100,000 will be expended on the clubhouse after October 31, 2010. This will mean that

we will have drawn down our operating line by about \$200,000 before we pay any operating costs for November and December.

The board does not believe that it is in the best interest of the club to maintain a balance in its operating loan. If budgets are balanced and achieved, we would expect that we would start the year with no operating line and that we should finish the year with no operating line. (For those accountants out there I realize that funding working capital also comes into play but the impact of that should be minimal as many of our suppliers allow us to pay for purchases in the spring).

The board has received approval from Bank West to increase the mortgage on the new clubhouse by \$250,000. The board believes that these additional funds will allow us to provide for the additional expenditures on the clubhouse and put our financial house back in order without impacting on member's dues. This additional loan may be repaid at any time without penalty. Repayment of this loan has been included in the 2011 budget.

### **2011 Budget**

The Board is recommending an increase of \$150 to Gold, Silver and Bronze membership categories. The 2011 budget is presented below:

**Highwood Golf and Country Club  
BUDGET  
For the year ending October 31, 2011**

	<b>2011 BUDGET</b>	<b>2010 Actual</b>	<b>2010 Budget</b>
<b>REVENUE</b>			
Green Fees & Tournaments	465,319.53	406,898.00	480,475.00
Golf Operations & Private Carts	276,100.00	265,846.00	281,067.00
Pro Shop Merchandise	273,900.00	273,266.00	255,600.00
Food & Beverage	880,500.00	85,015.00	80,000.00
Members Dues (\$150 increase)	1,488,395.00	1,478,734.00	1,425,870.00
Additional dues for new clubhouse	181,250.00	191,500.00	-
Other Income	30,200.00	59,672.00	30,950.00
<b>TOTAL REVENUE</b>	<b>3,595,664.53</b>	<b>2,760,931.00</b>	<b>2,553,962.00</b>
<b>EXPENSE</b>			
Golf Operations	406,287.00	427,585.00	358,911.00
Pro Shop Cost of Sales	141,050.00	216,361.00	171,000.00
Food & Beverage	777,613.00	17,804.00	20,600.00
Grounds	1,116,487.00	1,239,739.00	1,227,383.00
Administration & Clubhouse	679,341.00	511,665.00	444,687.00
Property Taxes	33,200.00	25,537.00	25,079.00
Miscellaneous	4,980.00	9,774.00	3,200.00
<b>TOTAL EXPENSE</b>	<b>3,158,958.00</b>	<b>2,448,465.00</b>	<b>2,250,860.00</b>
<b>NET INCOME (LOSS) BEFORE CAPITAL EXPENDITURES</b>	<b>436,706.53</b>	<b>312,466.00</b>	<b>303,102.00</b>

The Food and Beverage budget reflects the change in operations to internally manage from a catering company.

Management has removed \$100,000 from the grounds budget to provide funds for the repayment of the mortgage.

Administration & Clubhouse expenditures are budgeted to increase due to interest on the mortgage of \$135,000, an increase in utilities and wages.

Capital projects for 2011 consist of the following:

**HIGHWOOD GOLF & COUNTRY CLUB  
CAPITAL EXPENDITURE BUDGET**

***Debt repayments***

Clubhouse Mortgage Payments - Principal	97,575.00
	<u>97,575.00</u>

***F&B Capital Expenditures***

New Computers	7,500.00
Misc Dishes/Equipment	3,500.00
	<u>11,000.00</u>

***Pro Shop Capital Expenditures***

Loft & Lie Machine	2,500.00
Bag Racks	1,500.00
Sand & Seed Bottle holder x2	1,000.00
Proshop - New Surface Driving Range and Misc	12,500.00
Golf Shop Misc	3,000.00
	<u>20,500.00</u>

***Turf Care Capital Expenditures***

Buyout Lease - JD Mowers	19,521.60
Equipment - Roller, Sprayer, 4 Greens Walkers	39,500.00
Tarps	17,500.00
Putting Green	40,000.00
Trees	6,500.00
Tees MV 1/ Spitzee 4	4,250.00
Mountain View #4 Cart path, drainage, sod	8,500.00
	<u>135,771.60</u>

***Old Equipment Leases***

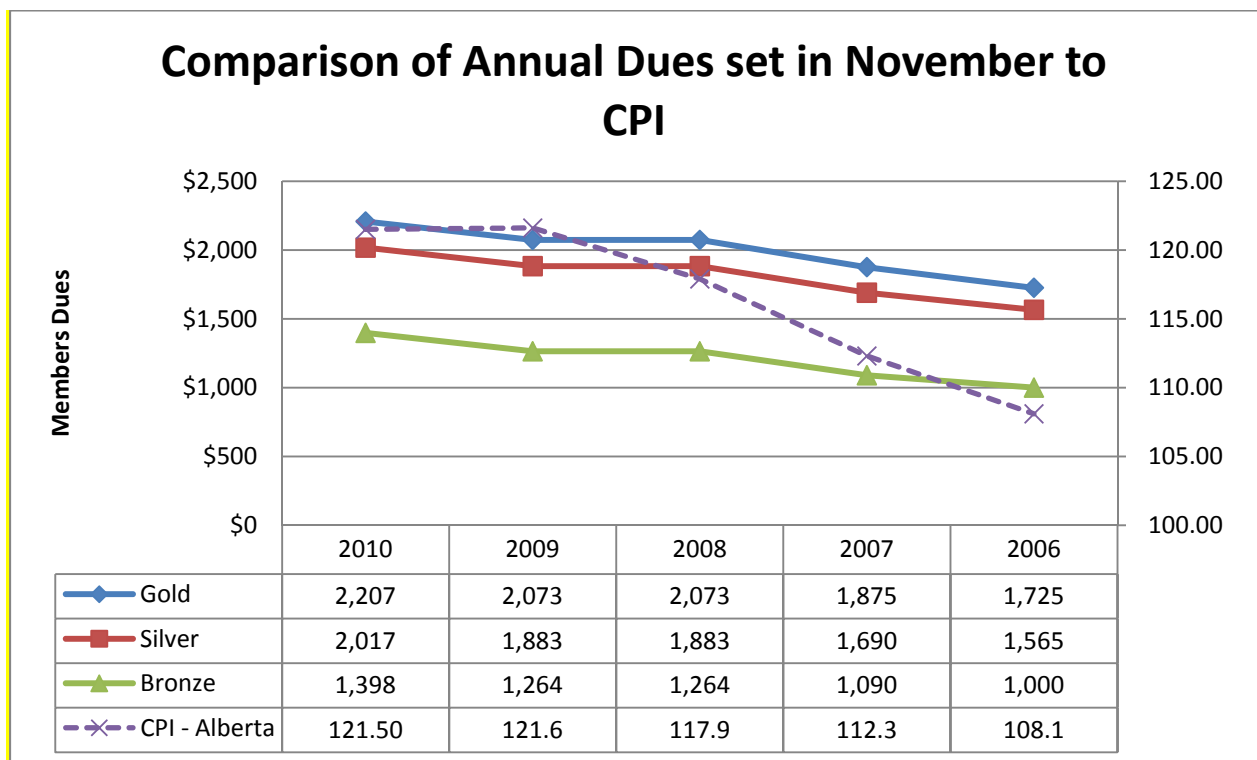
15 Club Cars - Electric (2007 lease)	9,139.00
35 Club Cars - Electric (2008 lease)	30,176.00
2007 - Reel Grinder, JD Gator, Top D	16,058.00
2008 - 1 JD Sprayer, 2 JD A; 4 Toros	20,211.00
2009 - Mower/Blower/SanDevil etc	27,965.00
2007 - 2 Toro Sidewinders, 2 Gat, 1 VD	28,667.00
	<u>132,216.00</u>

<b>Total Capital Expenditures/Lease Payments</b>	<b><u>397,062.60</u></b>
--	--------------------------

The net budgeted surplus, after providing for capital expenditures is \$80,000. This represents 2% of our total expenditures in a year. As the last few years have shown is, budgeting with so many variables is extremely difficult. The board believes that budgeting to a break even, i.e. having no surplus or

deficiency is irresponsible. A small surplus provides for the unforeseen. If the budget is achieved and a surplus results we can use the surplus to pay down our debt.

The board has tried very hard to keep increases to membership dues to a minimum. We all know that costs increase every year. The following chart shows the increase in membership fees against the increase in Consumer Price Index over the past 5 years. So while we all appreciate having no increase in dues, it is not realistic given that costs increase each year. We do expect management to effectively manage the costs of the golf club, but there does come a point where further cuts will have a direct impact on the services provided by the golf club. The board believes we have reached that cross road.



**Darlene Gehrke**  
**Chair – Finance Committee**