ROSSMERE COUNTRY CLUB

Financial Action Plan 2018

REPORT TO SHAREHOLDERS & MEMBERS

MAY 23, 2018

Rossmere Country Club
Financial Action Plan 2018

Introduction

To Rossmere Shareholders & Members:

As mentioned during my remarks at our Annual General Meeting in January of this year, our Fiscal 2017 financial statements addressed our current financial position which improved from a year ago in Fiscal 2016. We benefitted from an increase in revenues and were able to reduce expenses by making some effective short-term decisions, however, the Board of Directors realizes that it needs to look at long-term, strategic solutions to ensure the viability of the Club well into the future. This document - 'Financial Action Plan 2018' – endeavours to take our first, very big step towards achieving this goal of getting our financial house in order.

Our Club is, and has been for some time, very dependent upon the availability of operating and long-term financing. Again, I would like to address a section in the latest BDO Auditor's Report, on page 8, item 2, under 'Notes to Financial Statements', which references the club's working capital deficiency and that the club incurred a deficiency of revenue over expenses for the year. Our operating deficit and the concern of the club's ability to meet future obligations and our liabilities was called out in the financial statements as part of standard accounting practices – your Board certainly accepts this note as 'fair' and is aware of the club's current debt load. This is not new news to the Board, but it is the first time that is has been noted in the financial statements. We have already focused our attention to this situation, with an even greater inclination to put the organization in a much better financial state sooner, rather than later. To accomplish this, the Board embarked on developing future strategies, tactics, plans, and policies to mitigate any future financial drawbacks. The creation of the Clubhouse CARF policy last year is one great example of how we will contribute to the reduction of expenses, while at the same time realizing significant savings. We will continue to ensure that our club is achieving and maintaining a profitable level of operations which includes increasing our revenues, reducing our costs, and effectively managing our financing.

To this end, now is the time that we need to take a very large step towards our financial goals and become fiscally responsible more than ever before. We are very optimistic that the plans we have set forth will release pressure on our debt load and will allow us to meet future debt servicing requirements. Enclosed with this document is the Board of Director's financial action plan and the rationale behind our decisions.

We continuously need to evaluate our strategies and think differently then we have done in the past. The 'status quo' is certainly not the answer and, therefore, must be challenged across the organization. This undoubtedly means making some difficult decisions which will be for the betterment of our club now and going forward.

I trust that you will appreciate the current financial situation that our Club is in and the rationale behind the Board of Director's decision to address them as outlined in this report to mitigate any risk going forward.

Regards,

Mr. Cam B. Moskal
President
Rossmere Country Club

Financial Action Plan 2018 – Finance Committee Report

To Rossmere Shareholders & Members:

As noted in our President's introduction to this report, our operating line continues to be fully leveraged. Each year, our operating cash flow improves dramatically during golf season, however, reverts to fully drawn during the winter months, as revenue is limited during this time. This puts tremendous pressure on management and leaves no cushion for unforeseen or unpredictable expenses. Moreover, we continue to rely on the patience of our suppliers as we prioritize which bills get paid and when. The continued financial stress was finally identified by our Auditors in our most recent financial statements as an ongoing concern. While this is nothing new for us, the board felt it was of upmost importance to elevate this challenge to the top of our "to do" list in a similar fashion to how we have successfully addressed our most recent challenges including re-investment and re-capitalization of our permanent assets, namely the golf course and clubhouse.

It has always been our goal to maximize ongoing shareholder investment (in the form of annual membership dues) and to utilize this capital to the best of our ability. Most recently, we established a Clubhouse Capital Asset Replacement Fund (Clubhouse CARF) to tackle our aging and failing bricks and mortar infrastructure, to great success. In two short years, we replaced most of our roofs, renovated the office and pro shop, replaced our problematic plumbing lines (as well as our main supply line), replaced our HVAC systems and, converted the facility to energy efficient LED lighting, to name a few. Because of this work, we have already started to enjoy efficiency savings as well as a reduction in our annual service and maintenance expenses which will continue to maximize our financial position going forward.

The Board takes great pride in the fact that we have continued to re-invest and attempt to provide great value for members and shareholders without the need of a special assessment. We have been able to capitalize these projects through some creative borrowing and the establishment of our two CARF programs (both golf course and clubhouse). Through these initiatives and the support of membership, our two most important assets have never been positioned better.

Given this fact, your Board of Directors feel strongly that now is the optimal time to pause significant spending and tackle the operating line as it our largest liability and represents a challenge to ongoing operations and management.

Following lengthy analysis of our options is this regard, we are left with two options to significantly reduce the operating line to a normalized and comfortable level. Those options follow:

1. A one-time Special Assessment to membership.
2. Suspension of Golf Course CARF for a period of three years.

For many reasons, Option 1 was the least attractive of these solutions. Our membership has continued to be supportive of the various initiatives instituted by the Board including the introduction of CARF dues and annual membership increases. This is, and will always be, the last resort for any required capital raises.

This leads us to Option 2 – suspension of Golf Course CARF spending for a short period. Instead or raising additional capital from membership, we thought it best to utilize the existing dues paid by membership and repurposing them to pay down the operating line. This option will maintain the status quo, financially, for our members, while putting us in great financial position for the future.

In an attempt to communicate a clear picture of our goal, the following table represents our pro-forma action plan to reduce the operating line to a manageable level.

The ‘Financial Action Plan’ in detail.

Golf CARF Suspension		
		Notes:
Current Line of Credit	-$440,000	Includes one year of CARF suspension (2017)
Less Accounts Receivable (AR)	$130,000	Current and pro-forma average outstanding
Cash Flow Deficit	**$310,000**	
Target Line of Credit (incl AR)	**-$175,000**	Acceptable outstanding from time-to-time
		Includes AR owing
Reduction Required to Meet Target	$265,000	
2 more years of Golf CARF Suspension	$140,000	Current average contribution of ±$70,000
Year One Hydro Rebate for LED Conversion	$30,000	
Balance to Meet Target	**-$95,000**	
Future Annual Cash Flow Savings		
Reduction in Utility Costs	$10,000	LED lighting program from 2016
Reduction in Equipment Lease Costs	$12,000	2018 lease restructure
Reduction in Original Cart Lease (Oct 2018)	$23,000	Future savings
Positive Change in Annual Cash Flow	**$45,000**	
Years to Hit Target	2.1	

Summary		
Reduction Required to Meet Target	-$265,000	
2 more years of Golf CARF suspension + Hydro rebate	$170,000	
2 years positive change in annual cash flow	$90,000	
Gap	**-$5,000**	

As is demonstrated above, our current outstanding line of credit sits at approximately $440,000. While this is a fluctuating number, following the winter months, we consistently find ourselves at this level. Included in this figure is our member account receivables (“AR”), which include both house and membership accounts. Given the nature of our AR and our historical operating levels, we feel that $130,000 of outstanding AR is normal and an acceptable level within which to continue to operate. While this puts us at a “real” cash deficit of ±$310,000, the operating line does not enjoy the benefit of the AR.

Given our target for acceptable AR, we feel like our line of credit, from time to time, should float in the range of $175,000. While our target position is to have a surplus at all times, at this time, we feel this is a realistic and comfortable target (which would be comprised of, to a large extent, member AR). Given this target, the reduction goal for the operating line is approximately $265,000.

To reach this target, we will utilize member contributions towards Golf CARF, which will average ±$70,000 per year over a 3-year period. It is important to note that the current operating line has not yet paid last year’s CARF contributions to Golf CARF, therefore the total suspension of Golf CARF spending is 3 years (while we have only outlined 2 years above).

While the Golf CARF suspension will result in a further contribution of approximately $140,000 towards the operating line, we are projecting that the balance of the shortfall to meet our target will be realized through savings from many of our recent initiatives. A summary follows:

1. Our conversion to LED lighting has resulted in a decrease of our ongoing electricity bill in excess of $11,000 per year.
2. The LED conversion also resulted in a Hydro Rebate of approximately $30,000, which we recently received.
3. In early 2018 we restructured our golf course equipment leases, that will result in an annual savings of +$12,000.
4. By the end of fiscal 2018, we will realize interest savings from our original cart fleet lease in an approximate annual amount of $23,000.

Please note that these budgeted savings do not include many other improvements to cash flow that will be recognized through other recent initiatives and the full amortization of other Rossmere loans. For example, through our reinvestment into the Clubhouse infrastructure through our Clubhouse CARF program, we enjoyed repair and maintenance and service savings of approximately $30,000 in year one alone. Other examples include the full amortization of one of our term loans (pro shop renovation and curling rink exterior renovation) and our second golf cart fleet loan (both maturing in 2020) that will result in combined savings of ±$46,000 annually.

It is our firm belief that through all the initiatives mentioned herein, we will be able to reduce or eliminate our dependence on our operating line in the very near future. The financial stability of the Club is a top priority for the Board as we see many courses continue to struggle to meet their financial obligations. We feel we are in great position to meet our financial objectives, without sacrificing value to members and shareholders while keeping our fees and dues at the existing level. While significant investment in our golf course has provided great benefit to Rossmere over the last 10 years, we feel now is the optimal time to shift our focus to our most current pressing financial challenge.

Regards,

Mr. Brad German
Chair, Finance Committee
Rossmere Country Club

Why the need for a "Financial Action Plan" & Why Now?

- The Board of Directors was challenged with exploring long-term, strategic solutions to reduce the Club's outstanding Line of Credit and to ensure the viability of the Club well into the future. Inaction was not an option.
- The Board believes that this is the most opportune time to act - with our golf course being in the best condition it has ever been in and following the completion of the Club's ten-year capital improvement plan set out by a previous Board. The Club has invested significantly on Golf CARF projects since 2007 to the tune of $899,423.41, which has allowed the Club to extensively advance the design, condition, playability, and enjoyment of the golf course. Shifting our focus now, for a relatively short period of time, on our most pressing financial challenge is viewed as a sensible and viable course of action.

What is the 'Financial Action Plan' and how does it affect the Club?

- The Board of Directors unanimously passed a motion at its April 25, 2018 meeting as follows: *"To suspend all Golf CARF (Capital Assets Replacement Fund) expenditures for a period of three (3) years, commencing in 2017 through to 2019, and utilize these Golf CARF contributions for the express purpose of reducing the outstanding Lind of Credit in favour of the Canadian Western Bank."*
- The above motion 'suspends' the current Capital Assets Replacement Fund (Golf CARF) Policy (*see Policies & Procedures General Handbook section 9.10*) to the end of 2019.
- Essentially, this action will postpone any projects previously eligible for funding under Golf CARF such as capital works or major improvements to golf facilities with a minimum value of $5,000, such as:
    - Golf course improvements
    - Golf related clubhouse improvements
    - Other improvements including operations and maintenance buildings, pump-house, access roads, parking lot.
    - Major golf equipment purchases
- The CARF Account will continue to maintain a rainy-day fund for emergency expenditure projects, which equates to a minimum 50% of the annual funding contribution ($35,000).
- This action in no way suspends, prohibits, or affects the Clubhouse CARF Policy and the 3-year renovation plan currently underway.

What were the alternatives to the final plan?

- Quite frankly, the alternatives to the 'Financial Action Plan 2018' could have been the following:
    1. Do nothing and continue down the current path of maintaining a lofty Line of Credit, acknowledging that any future operating deficits may affect the club's ability to meet future obligations and our liabilities; or
    2. Implement a one-time Special Assessment Fee for all Members in the neighbourhood of $1,000.
- The Board of Directors found neither of the above options to be favourable in light of the final plan.