



Memo

To: Cedarholm Clubhouse Replacement Advisory Team
From: Chris Miller, Finance Director
Date: June 9, 2016
Re: Cedarholm Golf Course Financial Summary (2011-2015)

Introduction

The purpose of this memo is to provide the Cedarholm Clubhouse Advisory Team with information that will help address the future viability of the golf course as a stand-alone city function, while also clarifying a couple of specific accounting practices that potentially play a role in its financial performance. The memo will cover the following topics:

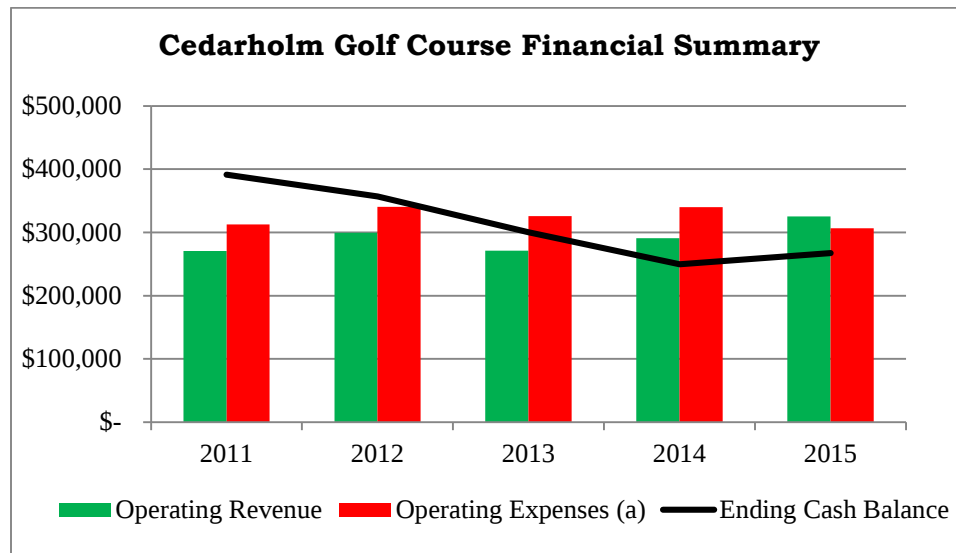
- ❑ 2011-2015 Financial Summary
- ❑ Staffing Allocations
- ❑ Overhead Charges

Each of these topics are addressed below.

2011-2015 Financial Summary

A financial summary for the Cedarholm Golf Course for 2011-2015 is shown in the table and graph below.

Cedarholm Golf Course Financial Summary					
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Operating Revenue	\$ 270,435	\$ 299,555	\$ 271,097	\$ 291,037	\$ 325,461
Operating Expenses (a)	312,480	340,519	325,818	339,911	306,815
Operating Income (Loss)	\$ (42,045)	\$ (40,963)	\$ (54,721)	\$ (48,875)	\$ 18,645
Non-Operating Revenue (Expense)	\$ 8,825	\$ 5,874	\$ (10,884)	\$ 16,074	\$ 5,090
Transfers Out for Admin Charges	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Change in Net Position	\$ (53,221)	\$ (55,090)	\$ (85,605)	\$ (52,801)	\$ 3,735
(a) Includes Depreciation					
Actual Depreciation Amount =	\$ 26,755	\$ 26,755	\$ 29,602	\$ 15,445	\$ 19,113



As shown in the table and graph above, the golf course has experienced an operating loss in four out of the last five years. An entity's operating income (loss) represents a key performance measure because it reflects its ability to cover day-to-day expenses with revenues that are directly generated by the entity itself. It also reflects the ability to provide for future capital asset replacements. Repeated operating losses signal that the entity is unable to do either of these things.

Fortunately, these losses have been somewhat mitigated by non-operating revenues including investment earnings on idle cash and the sale of surplus equipment.

While the decline in operating losses in recent years is encouraging, the long-term viability of the golf course as a stand-alone function is highly questionable given the significant capital improvements that are on the horizon. The chart below depicts the amount of capital assets that are scheduled to be replaced or refurbished over the next 10 years.

Cedarholm Golf Course Planned Capital Improvements					
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021-2026</u>
Vehicles	\$ -	\$ -	\$ -	\$ -	\$ 28,000
Equipment	22,000	-	75,000	45,000	128,000
Buildings	-	1,000,000	8,000	-	277,000
Land Improvements	-	26,000	5,000	-	43,500
	\$ 22,000	\$ 1,026,000	\$ 88,000	\$ 45,000	\$ 476,500
				10-Year Total	\$ 1,657,500

As shown in the chart, there are more than \$1.6 million in planned improvements at the golf course over the next ten years. However, on its current financial trajectory the golf course will be unable to provide for these items.

Another prominent trend is the decline in cash reserves. Although it increased in 2015, the cash balance has dropped by 32% since 2011 despite minimal capital investments during this period.

Staffing Allocations

Currently, the golf course has one full-time and one three-quarter time employee for a combined 1.75 FTE's. For 2016, the total wages and benefits for these two positions is \$193,000. There is an additional \$54,000 in temporary wages and benefits for a combined total of \$247,000.

There have been occasional discussions on whether the personnel allocation towards the golf course is representative of the *actual* time spent. It's recognized that personnel assigned to the golf course spend a portion of their time throughout the year providing other parks & recreation services. However, it's also recognized that non-golf personnel occasionally provide direct assistance to the golf course in return.

To determine whether personnel allocations ought to be adjusted, it's suggested that a time-spent profile exercise be conducted for applicable parks & recreation staff.

Overhead Charges

Included within the golf course operating expenses is a separate charge for administrative overhead. To be clear, *every* entity or organization including the golf course has overhead expenses. These expenses reflect real costs that would not occur if the entity didn't exist.

Specific to the golf course, overhead costs include (but are not limited to):

- ☐ Property, liability, and workers compensation administration
- ☐ Payroll processing, income tax withholding and distribution, etc.
- ☐ Invoice processing and payment
- ☐ Accounting & financial reporting
- ☐ Banking and investing services
- ☐ Legal services
- ☐ Information technology support services
- ☐ Human resources administration

In total, the golf course is charged \$20,000 annually for these and other services, down from \$30,000 a decade ago. This represents approximately 6% of the annual operating budget which is comparable to what other stand-alone city functions are charged.

Final Comments

Hopefully the information presented above demonstrates the golf course's ability to continue as a stand-alone function. Reducing the overhead charge or reassigning a portion of the golf course staff to other areas might be part of the solution to make the golf course more financially viable. However, those savings may not be enough to cover future operating losses nor will they be sufficient to provide for capital improvements.

The bottom line is that in order for the golf course to remain operational, it will require a significant, on-going contribution from other funding sources; with property taxes being the most likely source. This will effectively put the golf course in direct competition for resources with other city functions including police, fire, streets, skating center, and other parks & recreation programs and amenities.