



Memo

To: Cedarholm Clubhouse Replacement Advisory Team
From: Chris Miller, Finance Director
Date: June 9, 2016
Re: Municipal Golf Course Financing 101

Introduction

The purpose of this memo is to provide the Cedarholm Clubhouse Advisory Team with a general understanding of how municipal golf courses are typically financed and how that might be different from other city programs and services.

Specifically, this memo will cover a discussion on revenues and expenditures, the differences between *business*-type and *governmental*-type funding models, and the accounting concepts of depreciation and administrative service charges. Each of these topics are addressed separately below.

Golf Course Revenues & Expenditures

Most municipal golf courses are primarily funded by revenues that are directly generated by the course itself. For Cedarholm Golf Course, this includes the following:

- ☐ Green fees (81% of revenues in 2015)
- ☐ Equipment rentals & sales (7%)
- ☐ Concession sales (10%)

The golf course also generates revenues through the sale of surplus (used) equipment and interest earnings on investments. More recently however, municipal golf course have increasingly relied on other sources such as property taxes to sustain operations and provide for capital replacements.

The primary funding expenditures for Cedarholm are as follows:

- ☐ Personnel (63 % of uses in 2015)
- ☐ Supplies & Materials (9%)
- ☐ Contractual Services & Other Charges (11%)
- ☐ Depreciation (6%)
- ☐ Administrative Service Charges (6%)
- ☐ Cost of Sales (5%)

The business-type accounting terms ‘depreciation’ and ‘administrative service charges’ are provided below.

Business Type (Enterprise) vs. Governmental Funding Model

Some city functions including many golf courses, are managed under the principle that the revenue it generates from user fees ought to be sufficient to provide for its costs. Under this financial model, governments will categorize the operation as a ‘business-type’ or enterprise function.

This is in contrast to other city functions which are categorized as ‘governmental-type’ functions where funding sources are more varied and include revenues such as property taxes that are not directly provided by users. The following table includes a few examples of both types of functions.

Business-Type	Governmental-Type
<u>Functions</u>	<u>Functions</u>
Golf Course	Skating Center
Water System	Parks & Recreation Programs
Sewer System	Police & Fire
	Streets & Pathways
	Administration & Finance

As a *business-type* function, the golf course adheres to specific accounting and financial reporting standards similar to private industry organizations. This includes the recognition of capital-recovery charges (depreciation) as well as the recognition of indirect costs (administrative service charges). The recognition of these accounting standards are not necessarily found in governmental-type functions but they can be. Each of these accounting concepts are explained in greater detail in the next section.

As noted earlier, many municipal golf courses were originally established under the principle that user fees would fully sustained its operations. In recent years however, changes in the golfing industry has had a significant impact on participant levels causing some cities to reconsider whether their golf course should remain a business-type function.

Depreciation and Administrative Service Charges

As noted earlier, business-type functions are accompanied by specific accounting and financial reporting requirements that may not be present in other city functions. One of those accounting requirements is depreciation charges which represents the cost recovery of capital assets that were acquired and placed into service. These charges are presented on the golf course operating statement as a non-cash expense.

By depicting these cost-recovery charges we demonstrate the golf course’s ability to fund *future* capital replacements. If the golf course cannot sustain positive cash flows from operations including depreciation charges, then it’s a clear sign that it will be unable to provide for its own capital replacements.

Another accounting requirement is the depiction of administrative service charges which represent indirect costs that are real, yet would not occur if the golf course didn’t exist. These charges are sometimes referred to as ‘overhead charges’.

Specific to the golf course, these administrative service charges include (but are not limited to):

- ☐ Property, liability, and workers compensation administration
- ☐ Payroll processing, income tax withholding and distribution, etc.
- ☐ Invoice processing
- ☐ 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.