Oak Valley Country Club

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Oak Valley Country Club chronicles the history of the club from its inception to the present. Oak Valley has experienced both good and bad times financially. The current financial position of Oak Valley is unstable because of monthly cash requirements to service long-term debt. This debt stems from some decisions made by previous Board of Directors during the clubhouse renovations during the late 1990's.. Oak Valley Country Club faces a pivotal moment in its existence. There are many issues that must be resolved before the Club can return to the level desired by the Board of Directors and membership. Initially, the club must address its inadequate revenue stream as well as its service quality.

This case requires students to analyze current management practices and financial statements and make decisions based on their analyses.

INTRODUCTION

Bob Johnson loved golf and he especially loved his golf course, Oak Valley Country Club. A production executive, retired for three years, Bob had enjoyed his retirement life. As an avid golfer since his 20's, Bob not only was playing more golf, but also had volunteered his time to serve on the Board of Directors for Oak Valley. As of late, he was beginning to regret that decision. He learned at his first board meeting that the club's current manager was under suspicion of management fraud. In addition, membership was declining and the bank was making noise concerning the club's ability to meet its long-term obligations. In addition, he was hearing grumbling from members about the decline in the quality of the golf course and dining room services. Bob had been a member now for 15 years. With a board meeting rapidly approaching, he was ready to shake some things up. As one of the leaders of the organization, he knew he had to act, but was not exactly sure how to go about it. Bob had always thought that fixing his slice was hard. He now considered that an easy task to fixing the Oak Valley Country Club.

OAK VALLEY: THE EARLY YEARS

Oak Valley Country Club is located in a small rural county in the southeast. It has been in existence since 1968. There are numerous golf courses and country clubs within a 30-mile radius around Oak Valley, and over the past 15 years, the number of golf courses in the area has increased. This increase, along with a down turn in the economy, has left many clubs struggling to maintain memberships and meet expenses. Oak Valley is no different. However, several other decisions made by the Board of Directors have made it even harder for Oak Valley to breakeven in its operations.

Founded in 1968, Oak Valley was organized by a group of men who wanted a local golf course and country club. They had a vision of Oak Valley becoming a place where they could entertain their business clients with a round of golf or a dinner, a place where their families could enjoy pool and tennis courts, or local residents could enjoy a round of golf. At the time Oak Valley was chartered, golf was considered a sport for the more affluent citizens. The founders of Oak Valley wanted it to be a golf course and country club that was affordable for most families. They sought to build a quality facility with reasonable membership fees that would attract the average family. A tract of land located halfway between the two largest towns in the county was selected as the construction site. The owner of the land was a farmer who desired to downsize because of his age. He agreed to sell 200 acres of land for the facility at a very reasonable price of $40,000. The only hurdle the group was facing was to find financing for the facility. They approached the Farm Home Administration with a proposal. The FHA agreed to finance the purchase of the land and fund the building of the golf course and clubhouse and also agree to finance the building of a swimming pool and tennis courts. The FHA had never financed such a facility before, but the group was insistent. Oak Valley was located in a small rural county and one of the purposes of the FHA was to help residents of such counties. After the intervention of a local senator, the FHA agreed to finance the project. However, they required many stipulations as to number of members, eligibility of members, and how the facility would be managed. Oak Valley was to be chartered as a non-profit, member-owned club. Even though it was chartered as a private club, the FHA membership requirements stated that there could be no discrimination because of race or religion. When a member joined, he or she was entitled to a share of the club. Also, Oak Valley could never be sold at a profit. If Oak Valley became unable to make the FHA payments, it would be sold and any profit would go to a designated charitable organization. The organizing group believed these stipulations were reasonable, the papers were signed and Oak Valley Country Club construction began. The original loan for the purchase of the land and the construction of the facilities was $300,000. It was financed over a 40-year period at a very low interest rate.

One of the stipulations of the FHA was that Oak Valley would have a nine-member board of directors. The first election was held and nine members were elected as directors – three with 3-year terms, three with 2-year terms, and three with a 1-year term. After the first election, three directors would be elected each March at an annual meeting. The Board of Directors was to set Club policy, hire management, and approve decisions management made. One of the first decisions the Board made was to hire a golf professional to run the golf course operations. They also hired a dining room manager, as well as a bookkeeper.

Early on, Oak Valley struggled to gain enough initial members to be successful. However, the golf course soon invited outside play and Oak Valley's reputation as an excellent golf course grew. Within the next two years, Oak Valley attracted so many members that there was a waiting list to join. The FHA had designated two classes of memberships – golf and social with a limit of 400 golf members and 200 social members. The golf membership included use of all facilities. The social membership included the pool, tennis courts, and dining room. If social members desired to play golf, they would have to pay a daily greens fee or upgrade their membership. The original initiation fee was $100, golf monthly dues $30, and social dues $15.

The next 20 years were good years for Oak Valley. As in any business, there were times that cash was short and the Club struggled to meet expenses, but overall Oak Valley was a success. Much of this success could be attributed to the golf professional that stayed with the club until 1988. He was experienced in golf course management and was well liked by the members. However, the dining room never reached expectations. Even with good management, the dining room could not manage to break even.

In 1988, the original golf professional left the club to become the owner of his own golf course. Another professional was hired by the Board of Directors. However, this professional did not have enough experience or the support of the majority of the golfing members and did not provide the leadership necessary for a successful golf operation. To ease this situation, an assistant professional was hired. Even though the assistant was young, he was local and very well liked by the members. He had completed all the PGA training programs and he was successful in managing the golf course operations. The head professional left after two years and returned to his former course and the assistant professional was promoted to head professional.

GROWING PAINS: NEW FACILITY

The early and mid 1990's were good years for the club. It had reached a high point in membership and profitability and the golf course operations were successful. [See Appendix I] However, the dining room had yet to achieve profitability. The quality of service had declined and the hours of operation were reduced.

The Board of Directors decided it was time for a change. The facilities were now almost 30 years old and in need of major renovation. The club house had a small pro shop and mid-size dining room. After reviewing renovation plans, the Board of Directors decided the proper course of action was to build a new clubhouse instead of renovating the current one. The Board of Directors decided the long-term needs of Oak Valley would be better served with a new facility. The plans included a large pro shop, two dining rooms, a bar and grill area, large kitchen, and men and women's locker rooms. Many of the members thought the plans were beyond the financial ability of the organization and urged the Board to renovate instead of building or at least to decrease the size of the proposed facility. Since the Board of Directors was getting much negative feedback about the plans for the new clubhouse, they held a membership meeting. The members at the meeting reiterated their concerns about the size and cost of the clubhouse. The membership was not allowed to vote on the issue because, according to the By-Laws of Oak Valley, the management of the club rested solely with the Board of Directors. The Board of Directors chose to move forward with the new clubhouse as planned . It was contracted on a cost plus basis with an expected outlay of $750,000.

There were problems with the construction from the start. The Board attempted to work with the construction company directly instead of hiring a contractor to oversee the project. It seemed as if no one was in charge, changes were made in the plans, additions were made to the facility, and the time frame of one-year construction became 18 months. The overall cost of the project swelled to $1,250,000 or $500,000 over budget. In addition to the overage on the construction, the only facilities the club had during the construction was a doublewide trailer that served as a pro shop and a small trailer that served only hamburgers, hot dogs, sandwiches and drinks. It could only seat about 10 people at the time. This caused many social members to drop their membership because the only facility they were using was the dining room and now that was gone. They believed they could rejoin after the construction for less than their monthly dues during the construction.

Finally in October 1998, the construction was completed and Oak Valley had one of the finest clubhouses in the area. The Club no longer had any FHA restrictions as to membership or operations because the remaining balance on the FHA loan had become part of the construction loan. Membership could be increased if the need arose. However, the Board of Directors did not estimate that other expenses such as taxes, maintenance, utilities and insurance would increase as sharply as they did. In addition, the loan payment for the new building was more than 5 times the amount of the payment to the FHA. However, the economy was good and revenue increased and supported the operations. Unfortunately, the next three years reported a downturn in the US economy which was hardest felt in rural areas. Oak Valley began to see a decline in members and thusly its financial stability.

Until this time, Oak Valley had been operated by the golf professional and the board. With the completion of the new facility, the Board of Directors decided a General Manager was needed. The club had never had a full-time general manager, but the board felt it would be a good decision to hire one. The only other time the club had had a general manager was when a retired member became general manager part-time to try to right the club's financial position during an earlier recession. He was very successful and turned the finances around within a few months. He continued for three years, and then decided to return to retirement. The Board hired a general manager that seemed to have good qualifications for food and beverage service and golf course operations. However, he quickly made many unpopular decisions concerning the dining room and the golf course operations. The Board had given him a free rein, and basically did nothing to stop his poor decisions until it was too late. Spending had grown out of control, prices had been increased so much that many members were not using the dining room facilities, and the special events that had helped support the dining room ceased. The general manager saw no need to cater to groups or do extra work necessary to support rentals by outside groups. When the Board finally realized that something must be done, the club was in financial disarray. The general manager was terminated.

OAK VALLEY HIRES A PROFESSIONAL

Again the Board decided that the solution was another general manager. A general manager Kent Wood, was hired who had operated a club in Virginia much like Oak Valley. They believed Mr. Wood had the experience to turn the finances of Oak Valley around. In addition to his management experience he also had a degree in accounting. The Board saw him as the ideal person to make the necessary changes to put Oak Valley back on the right path.

The first action Mr. Wood took was to fire the Certified Public Accountant who did the month end work at Oak Valley. The CPA had been doing Oak Valley's accounting work since 1985. Mr. Wood also wanted to move the checking account to another bank. He was unable to do so because the loan on the facilities was with the same bank and the loan agreement required the checking account be with them as long as the loan was outstanding. He also fired the bookkeeper that had been with the club for over 10 years and hired someone with no background in accounting or business. Some of the actions of Mr. Wood raised questions among some Board members and members of the club. A Board member assured the personnel committee that hired Mr. Wood that he had checked Mr. Wood's references. When some members became very unhappy with Mr. Wood they did some checking on their own. They discovered that Mr. Wood had been discharged from the club in Virginia because he had stolen $80,000 from the club. When faced with the news, the Board member that said he checked Mr. Wood's references admitted that he did not do a very good job of checking. He only talked to one person, and it turned out that he was Mr. Wood's best friend. The Board immediately fired Mr. Wood and called the CPA back in for an audit. It was believed that Mr. Wood was planning to do the same thing at Oak Valley that he had at the club in Virginia. The one thing that was holding him back was his inability to get the bank account moved. The audit did not show that Mr. Wood had stolen from Oak Valley, but it did show that expenses were totally unchecked, other expenses were posted as prepaid assets, the accounts payable were past due 60-90 days, and there was no cash to meet payroll or other expenses. [See Appendix II, IV]

TOUGH DECISIONS

The Board of Directors had an emergency meeting to try to decide what to do. They decided to cut any unnecessary expenses to try to improve the cash position of the club. For example linen services, which were costing over $600 per week were cut out. The club was in the process of purchasing a washer and dryer and requiring dining room employees to do linen themselves, but instead a club member donated a washer and dryer. This one move saved the club $2,500 per month in expenses. All overtime was cut out, time sheets were monitored, and purchasing prerequisites were reviewed. Many changes would have to be made if Oak Valley were to survive.

The Board of Directors decided not to hire another general manager at this time. Members of the board agreed to assume certain duties themselves. One member of the board agreed to oversee the finances of the club. Another board member agreed to monitor the receivables and payables, another golf course expenses, and another the dining room. After checking other club's dues and initiation fees, the board also voted to raise monthly golf dues by $15 per month and social dues by $7 per month. This change alone raised revenues by almost $6,000 per month. The Board felt the increase in dues was small enough so as to only lose a few members because of the increase. They also rescinded the initiation fee of $500 for a six-month's period to entice new members to join Oak Valley. The Board did decide to hire a working dining room manager. There was no current employee that could manage the food and beverage services. It was believed that dining room expense could be cut to offset the expense of hiring a full time dining room manager. This, in time, proved to be a good decision. Within three months time, the new dining room manager had put the dining room on a breakeven basis. This was done by managing hours of the wait and cook staff and by buying from a wholesale rather than retail company. The dining room is continuing to operate on a breakeven basis for most months and the dining room manager has brought in many special events to help supplement the income from other than members. Through renewed training of the wait staff and updating the menus, the dining room has regained much of the business previously lost. There are still areas of food and beverage services that can be improved, but the Board is willing to let the manager make the changes over time.

However, the other areas of the club, such as the golf course are still in need of improvement. The condition of the course is not the quality that most members require. Part of the deterioration is due to budget cuts in the golf course budget, but much of it is due to management issues. The golf course superintendent left after eight years and a new one was hired. The new superintendent had the educational qualifications for the job, but did not have any experience in managing golf course personnel or equipment. The personnel committee hired him at a low salary because of his inexperience. The previous superintendent had left the plan for application of fertilizer, insecticides, and herbicides with the board. This plan was given to the new superintendent, but he has chosen not to follow it and the board has not required him to do so. It remains to be seen if he can do the job.

Oak Valley is now much more stable financially than it was at the end of the previous year. [See Appendix III, IV] The payables are all current and money has been put in a capital fund to pay the $35,000 of taxes and $8,000 of insurance due in early January. During the previous year, funds were not available to pay the property taxes or insurance and a short-term loan was obtained from the bank to meet those obligations. The current Board of Directors has done a reasonable job of managing the club. However, there are still issues left over from previous boards that must be solved if Oak Valley is to again become profitable. The club has experienced problems in servicing the long-term debt for the new facilities. The bank has refinanced the note on facilities and a note on golf carts and other non real estate assets lowering the interest rate from 9% to 7%. They also gave the club a three-month hiatus on principle payments to give Oak Valley an opportunity to overcome issues created by Mr. Wood. While membership has decreased from the highs in the mid 1990's, there seems to be some consistency now with golf memberships remaining around 325 and social memberships around 125. The board has set a goal of 400 golf members and 150 social members. They have explored various ways of increasing the membership by advertising the no initiation fee for now and by promotion packages with the Chamber of Commerce.

Even though finances have stabilized, long-term debt payments on the facilities are current and all payables are current, there are still some challenges to meet. The Board is addressing the revenue stream by trying to increase memberships. They do not feel the members will stand another dues increase at this time. However, another dues increase is not out of the question and even a small increase would continue to give Oak Valley a price advantage over other area clubs. Expenses have been cut about as much as possible without hurting the service or quality of the golf course and dining room. The dining room manager has made improvements in dining room service and quality, but there still are some issues to be resolved such as hours of operation, prices, and number of cooks needed in the kitchen. The biggest issue facing the Board of Directors is a balloon note due next year on golf carts and other non real estate assets. The last purchase of golf carts was financed over 5 years, but with payments based on a 10-year amortization. This will leave a balloon note of $200,000 due next year. The golf carts will need replacing by next year or the club will face large maintenance costs for new batteries. The $200,000 note must be paid before the golf carts can be replaced. Unless Oak Valley can increase monthly membership and increase outside play, there will not be enough cash to pay the balloon note. Another possibility is to get one of the golf cart manufacturers to take the old note along with a new note on new carts. Another decision concerning golf carts is whether to lease or buy.

The time has come for the annual meeting and election of three board members. The Board of Directors has not been able to convince members to agree to run for the board. Part of the club's problem has been electing board members who have no business experience or knowledge, but instead focusing on their ability to play golf. Now most of the membership realizes the importance of electing qualified persons to serve on the Board, but they also realize the job is one that requires hours of dedication and work. How does the board entice qualified members to seek election to the board? Oak Valley faces a pivotal moment in its existence. These and other issues must be resolved before the club can return to the level desired by the Board of Directors and membership and to top it all off, Bob Johnson still can't get rid of his slice.

APPENDIX I
Oak Valley Country Club
Financial Statements for the Year Ended December 31, 1996

Income Statement

Revenues		
Dining room sales		$ 363,452
Cost of dining room sales		(199,743)
Gross Profit – Dining room		$ 163,709
Membership dues		521,378
Membership initiation fees		12,000
Golf cart rentals		256,431
Greens fees		93,235
Interest income		4,897
Other income		15,620
Total Revenue		$ 1,067,270
Operating Expenses		
Salaries and wages		
Dining room	$ 137,532	
Golf course	203,160	
Administrative	24,650	
Pool	12,087	
Total Salaries and Wages		377,429
Repairs and maintenance		157,249
Depreciation		78,150
Utilities		36,278
Taxes		87,403
Interest		11,289
Insurance		22,934
Other		63,119
Total Expenses		843,851
Net Income(Loss)	($ 223,419)	

BALANCE SHEET

Current Assets		
Cash	$ 308,640	
Accounts receivable	15,278	
Prepaid Insurance	6,340	
Inventory	13,086	
Total Current Assets		$ 343,344
Property, Plant and Equipment		
Buildings	$ 225,400	
Equipment, furniture and fixtures	531,789	
Golf carts and paths	287,521	
Pool	133,490	
	$ 1,178,200	
Accumulated depreciation	(806,356)	
	$ 371,844	
Land and golf course	166,601	
Net Property, Plant, Equipment		538,445
Total Assets		$881,789
Current Liabilities		
Accounts payable	$ 35,034	
Current maturity of long term debt	6,860	
Total Current Liabilities	$ 41,894	
Long Term Debt		365,904
Total Liabilities		$ 407,798
Membership Equity		473,991
Total Liabilities and Membership Equity		$ 881,789

APPENDIX II

Oak Valley Country Club

Financial Statements for the Year Ended December 31, 2002

Income Statement

Revenues			
Dining room sales		$	366,418
Cost of dining room sales			(192,286)
			174,132
Membership dues			410,874
Membership initiation fees			11,350
Golf cart rentals			246,854
Greens fees			122,906
Interest income			2,609
Other income			10,392
Total Revenue			$ 979,117
Operating Expenses			
Salaries and wages			
Dining room	$ 162,868		
Golf course	195,846		
Administrative	27,073		
Pool	13,918		
Total Salaries and Wages			399,105
Repairs and maintenance			143,060
Depreciation			137,070
Utilities			60,421
Taxes			96,192
Interest			109,629
Insurance			58,129
Other			105,368
Total Expenses			$ 1,108,974
Net Income(Loss)			$ (129,857)

BALANCE SHEET

Current Assets			
Cash	$ 46,187		
Accounts receivable	15,357		
Inventory	10,255		
Total Current Assets			$ 71,799
Property, Plant and Equipment			
Buildings		$ 1,248,213	
Equipment, furniture and fixtures		848,482	
Golf carts and paths		421,990	
Pool		150,045	
		$ 2,668,730	
Accumulated depreciation		(1,343,61)	
		$ 1,325,116	
Land and golf course		166,601	
Net Property, Plant, Equipment			1,491,717
Total Assets			$ 1,563,516
Current Liabilities			
Accounts payable		$ 61,244	
Current maturity of long term debt		23,175	
Total Current Liabilities			$ 84,419
Long Term Debt			1,217,226
Total Liabilities			$ 1,301,645
Membership Equity			261,871
Total Liabilities and Membership Equity			$ 1,563,516

APPENDIX III

Oak Valley Country Club
Financial Statements for the Year Ended December 31, 2003

INCOME STATEMENT

Revenues		
Dining room sales		$ 330,005
Cost of dining room sales		(174,926)
		$ 155,079
Membership dues		454,117
Membership initiation fees		500
Golf cart rentals		223,936
Greens fees		86,498
Interest income		591
Other income		12,137
Total Revenue		$932,858
Operating Expenses		
Salaries and wages		
Dining room	$ 141,895	
Golf course	187,493	
Administrative	34,764	
Pool	11,389	
Total Salaries and Wages		75,541
Repairs and maintenance		120,738
Depreciation		138,000
Utilities		55,244
Taxes		93,128
Interest		82,153
Insurance		37,645
Other		51,749
Total Expenses		$ 954,198
Net Income(Loss)		$ (21,340)

BALANCE SHEET

Current Assets		
Cash	$ 126,083	
Accounts receivable	23,267	
Prepaid Insurance	9,457	
Inventory	7,086	
Total Current Assets		$ 165,893
Property, Plant and Equipment		
Buildings	$ 1,248,213	
Equipment, furniture and fixtures	849,224	
Golf carts and paths	421,990	
Pool	150,045	
	$ 2,669,472	
Accumulated depreciation	(1,481,614)	
	$ 1,187,858	
Land and golf course	166,601	
Net Property, Plant, Equipment		1,354,459
Total Assets		$ 1,520,352
Current Liabilities		
Accounts payable	$ 60,311	
Current maturity of long term debt	10,851	
Total Current Liabilities		$ 71,162
Long Term Debt		1,208,659
Total Liabilities		$ 1,279,821
Membership Equity		240,531
Total Liabilities and Membership Equity		$ 1,520,352

APPENDIX IV

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2002

Cash Flows From Operating Activities	
Cash received from members and guests	$ 1,168,794
Cash paid to suppliers and employees	(1,061,449)
Interest paid	(109,629)
Interest received	2,609
Net Cash Provided By Operating Activities	$ 325
Cash Flows From Investing Activities	
Capital expenditures	(31,464)
Net Cash Used in Investing Activities	$(31,464)
Cash Flows From Financing Activities	
Principal payments on notes	(59,482)
Net Cash Used in Financing Activities	$ (59,482)
Net Increase(Decrease) in Cash	$ (90,621)
Cash at beginning of year	136,808
Cash at end of year	**$ 46,187**

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2003

Cash Flows From Operating Activities	
Cash received from members and guests	$ 1,099,283
Cash paid to suppliers and employees	916,192)
Interest paid	(82,153)
Interest received	591
Net Cash Provided By Operating Activities	$ 101,529
Cash Flows From Investing Activities	
Capital expenditures	(742)
Net Cash Used in Investing Activities	($ 742)
Cash Flows From Financing Activities	
Principal payments on notes	(20,891)
Net Cash Used in Financing Activities	$ (20,891)
Net Increase(Decrease) in Cash	$ 79,896
Cash at beginning of year	46,187
Cash at end of year	$ 126,083