BETTER TOGETHER: TRANSPARENCY SERIES
The LPOA and Lakewood Oaks Country Club
Presented by the Lakewood Property Owners Association
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Part 3: The Acquisition Process (2007 - 2009)

Introduction:

In 2007 the membership of LPOA voted overwhelmingly to approve the acquisition of the Lakewood Oaks Golf Course. The LPOA then embarked on implementing the control and management of the golf course.

In order to ensure that the Lakewood community and home values would be protected in perpetuity, the acquisition of the Golf Course was done strategically in a way that both non-profits could thrive and mutually support each other's successes.

The LPOA Board accepted the responsibility of serving as the Board of the LHC in perpetuity, to mitigate the threat of competition between two organizations. The tax structure was designed to ensure that revenues could always be reinvested to support the responsible growth of the whole organization.

Due to the inclusion of expert financial and legal advisors, the acquisition strategy has ensured that both entities are Better Together, incentivising both entities to strive financially for decades to come.

Priorities During the Acquisition Process:

To successfully acquire the Golf Course, the LPOA had to create a strong legal foundation for both nonprofits, as well as manage the terms of the financing for the purchase.

Legal Foundations:

> **The Lakewood Oaks Golf Club I, Ltd was a 501c7, and only another 501c7 can buy a 501c7.**
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> So the LPOA, a 1120(h) Homeowner’s Association, first had to make important adjustments to stay IRS compliant. The LPOA created the Lakewood Holding Company (LHC), a 501c7, which would purchase the assets of the golf course, and control the business.
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> The Board of the LPOA was established as the Board of the LHC, in order to mitigate the threat of future competition, divisiveness or misuse of shared community benefits.

Financial Foundations:

> The LPOA used its financial standing to help the LHC secure a bank loan for $3.1 million, purchasing the assets of the Lakewood Oaks Golf Club I, LTD from the existing equity members of the course.
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> The LPOA gave a loan to the LHC to make their 20% down payment, and then backed the remaining 80% of their loan. Due to this early 20% investment, the LPOA continues to maintain an equitable interest in the LHC by being the sole investor.

Golf Course Valuation Overview:

Our community was initially constructed by Andes & Roberts in 1972, alongside our sister community, Raintree. When Farm & Home developers took over development in 1976, they made a conscious decision to continue development as an upscale community, and elected to build a golf course as an upscale anchor, to distinguish us from other communities in the area.

The golf course has proved to be a strong anchor for our home values for the last 46 years. When it was for sale in 2007, it was important that our community maintain control of it, to ensure its ongoing success in perpetuity.

The Golf Course has remained a sound investment for our community, with strong valuations over the course of its 46 years in business:

- 2006 - At the time of purchase for $3.1 million, the appraisal of the LOGC estimated it to be valued at $8.8 million replacement cost.

- 2017 - The LHC only owed $1.7 million for the Golf Course that was now valued at $9.5 million replacement cost.

- 2024 - The LHC owes just $850k for the same facility, which has had multiple upgrades. Now valued at least at $10.5m replacement costs.

Acquisition Timeline and Documents

Note: *All the referenced documents that are highlighted in yellow are located in the* **Residents Only Login** *section of the LPOA website. Since the Golf Course is a privately owned business, the documents shall not remain exposed to the public or competitive entities.*

April 23, 2007 — At a Special Meeting of the Board of Directors, the Board approved the motion to move forward with the Asset Purchase and Sale agreement.

April 2007 — The LPOA accepted the following bids for management:

- Bids from 12 Financial Institutions for financing of the acquisition.
- Bids from 7 Golf Course Management Companies.

May 5, 2007 — **Asset Purchase & Sale Agreement**

The LPOA purchased the assets of the Golf Course from Lakewood Oaks Golf Club I, LTD, which was owned by equity members. Assets included all buildings, property, and equipment related to the golf course. **The Asset Purchase & Sale Agreement was signed by:**

- Bruce Derks, on behalf of the Buyer, LPOA
- Bruce Derks, as Assignee-Buyer, Lakewood Holding Company
- Randy Eaton, Seller, Lakewood Oaks Golf Club I, LTD

Note: This document has been requested frequently by residents. This is the document that clarifies that the LPOA purchased the Golf Course assets. We didn't buy the company of the Lakewood Oaks Golf Club I, LTD. We simply bought all tangible assets. The Lakewood Oaks Golf Club I, LTD business dissolved several years after the sale of their assets.

May 10, 2007 **Asset Purchase & Sale Agreement - Amendment**
The LPOA signed an amendment to bring some final cash balance into the agreement to be collected by the buyer.

The Amended Asset Purchase & Sale Agreement was signed by:
- Bruce Derks, on behalf of the Buyer, LPOA
- Bruce Derks, as Assignee-Buyer, Lakewood Holding Company
- Randy Eaton, Seller, Lakewood Oaks Golf Club I, LTD

May 10, 2007 The LPOA accepted the terms of offer from Bank of Lee's Summit for up to $3.1 Million in financing.

May 16, 2007 The LPOA accepted Mr. Bill Prugh of the law firm of Shughart, Thomson & Kilroy as special counsel to the LPOA in regard to completing the purchase of the Lakewood Oaks Golf Club.

May 23, 2007 The Building Inspection was delivered to the LPOA by Norton & Schmidt Consulting Engineers.

May 30, 2007 The Phase 1 Environmental Inspection was delivered to the LPOA by Terracon.

June 15, 2007 **Articles of Incorporation.** The LPOA created the Lakewood Holding Company, Inc. (LHC) as a Missouri Nonprofit Corporation. It was established as a tax-exempt entity under IRS code 501(c)7.

June 21, 2007 **Corporate Action by LHC Board** The first Board Meeting of the Lakewood Holding Company, Inc. was held. **The LPOA Board members were elected as the LHC Board of Directors.** The original Board members were:

President-	Bruce Derks
Vice President-	Phil Mall
Secretary-	Susan Robinson
Treasurer-	Joseph Casebolt
Director-	Greg Bordner
Director-	Rita Hand
Director-	Patrick Starke
Director-	Karen Sturgeon
Director -	Eric White

Note: All Board Members of a Missouri Nonprofit Corporations are obligated by state law to make decisions that are in the best interest of the corporation(s) they serve.

June 21, 2007 **Assignment of Asset Purchase Agreement to LHC**

This internal document declared that LPOA assigned (aka transferred) all of its rights, interests and obligations of the Golf Course assets over to the newly formed Lakewood Holding Company (LHC), a wholly owned subsidiary of LPOA. The LHC now owns and manages the golf course assets, consisting of buildings, property, equipment, etc.

Note: Implications of IRS Categories that taxes are filed under:

- The LOGC I, LTD was a 501(c)7 company
- The LPOA is a 1120(h) Homeowner's Association
- The LHC is a 501(c)7 company
- However - only a 501c7 can buy another 501c7
- Therefore, LPOA created Lakewood Holding Company (LHC) as a 501c7
- The word "Holding" indicates the company is used to hold assets when assets cannot be purchased
- The LHC purchased the Golf Course, and LPOA is the singular investor in the LHC

The LPOA created the LHC 501(c)7 company to hold the assets to assure that the sale of the property was tax exempt.

June 25, 2007 **Bill of Sale** This marks the assignment of Lakewood Oaks Golf Club I, Ltd, assets to Lakewood Holding Company, including assignment of Contracts.

June 25, 2007 **Agreement of Joint Obligations** This internal document declares that even though the LPOA assigned the assets to the LHC, the LPOA agreed to remain jointly obligated for all financial obligations relating to the purchase of the golf course.

This included but was not limited to payment of all sums, due to Lakewood Oaks Golf Club I, LTD. This document clarifies that the LPOA is jointly obligated to all financial arrangements entered into by the LHC, since it is a wholly owned subsidiary of the LPOA.

June 27, 2007 **LHC Original Bank Loan** The Original financing of the $3,100,000 purchase was established with the Bank of Lee's Summit.

October 15, 2007 **Management Decisions:**
The Board of Directors soon began making their moves to provide the best scenario for day to day management of the company.

The first step was to advise interim LOGC General Manager, Gary McClure that the LHC would not be extending his contract beyond the end of 2007.

The Lakewood Holding Company entered into a Management Agreement with Eagle Golf Management (now dba Arcis) to provide Professional Management of the Lakewood Oaks Golf Club.

LPOA/LHC Loan Details:

The Original financing of the $3,100,000 purchase was established as follows;

June 25, 2007

A. Bank of Lee's Summit original loan amount to LHC, backed by the LPOA:	**$2,513,252.69**	(80%)
B. Three Payments by LPOA which are secured by a promissory note payable to LPOA by LHC:		
1. First Equity Payment due August 1, 2007	$190,680.91	
2. Second Equity Payment due July 1, 2008	$198,033.33	
3. Third Equity Payment due June 29, 2009	$198,033.00	
	$586,747.24	(20%+/-)
Total	**$3,100,000.00**	

Understanding the Loans:

The LHC paid for the Golf Course by providing 20% in cash for equity, and 80% through a loan that was financed by the LHC, with back from the LPOA.

To fund the 20% equity down payment, the LHC received cash funding from the LPOA in three payments (totaling $586,747.24), to pay to the former equity members of the prior LOGC1 LTD.

The LPOA backed these payments by Promissory Notes from the LHC. Additionally, the LHC has paid the LPOA monthly interest on these notes, from 2007-present.

As LPOA is the company that controls the LHC, the $586,747 was, and still is, viewed as the LPOAs equitable interest in the Lakewood Holding Company, Inc.

August 1, 2007 Promissory Note(s)

This first internal document, followed by many amended notes, is the financial instrument that documents and secures the LPOA's investment in the Lakewood Holding Company, which manages the golf course.

These information about all funds invested in the LHC to be used for equity purchase or loaned under the terms of a line of credit. All historical promissory notes are attached.

Upon purchase of the golf course by the LHC (buyer/assignee under control of the LPOA), the LPOA invested into the LHC a cash down payment of roughly 20% ($586,747.24) of the purchase price of the Golf Course ($3,100,000.00), and also provided a line of credit to the LHC for operating capital.

Summary of Full Investment to Purchase Assets of LOGC, I, LTD:
The original financing of the $3,100,000 purchase, as well as contributions towards capital investments by LPOA, was established as follows:

A. **Total Purchase Price** for Golf Course Assets **$3,100,000.00**

B. Bank of Lee's Summit **original loan amount** to the LHC **$2,513,252.69**

C. Payments funded by LPOA for the LHC, secured as investments by the Promissory Note (All this was used to pay off the Equity Members of Lakewood Oaks Golf Club I, Ltd)

1.	First Equity Payment to LOGC I LTD	8-1-07	$190,680.91
2.	Second Equity Payment to LOGC I LTD	7-1-08	$198,033.33
3.	Third Equity Payment to LOGC I LTD	6-29-09	$198,033.00
			$586,747.24

D**.** Operating Capital and Consolidated Line of Credit by LPOA to LHC (2008).
These were additional cash infusions during the first two years of the acquisition:
$376,368.36

E. Total Amount Invested by LPOA = C + D **$963,115.60**

Notes about A:
This purchase price was agreed upon by the LPOA and LOGC I, LTD.

Notes about B:
June 25, 2007 | The LHC took out a loan from Bank of Lee's Summit to pay approximately 80% of the cost of the Golf Course assets. The LHC has been repaying this loan to the bank since its inception. The original loan was with the Bank of Lee's Summit, and the current loan (2023) is with the Central Bank of the Midwest. The interest rate will balloon in May 2025. There is approximately $900k left on the loan, as of December 2023.

Notes about C:
The LPOA made a cash investment of about 20% of the total purchase price of the assets. This cash investment gave the LPOA equity in the newly formed LHC. The LPOA is the sole investor in the LHC, and this is the reason that LPOA controls the tax exempt LHC.

Notes about D:
During the first several years of LHC control, the LPOA ended up contributing an additional $376,368.36 in operating capital and consolidated line of credit.

Notes about E: $963,115.60 is the amount of the total of the Promissory Note. It combines the LPOA equity investment of $546,747, as well as the $376,368.36 in contributions towards capital expenses in the infancy stages of the LHC.

Repayment Terms:
This Promissory Note outlines the agreement that LHC will pay the LPOA interest payments of $1,227.97 per month, indefinitely, which equals an interest rate of 1.58% on the $963,115.60 consolidated loan amount. This document secures the LPOA's investment in the LHC.

Forward Looking: Repayment Strategy Recommendations

Future boards will determine if/when it is feasible for LHC to begin repaying the LPOA past contributions to operating/capital expenses of $376,368.36.

Staff continues to recommend that this repayment be deferred until the bank loan of $2,513,252.69 is satisfied in full (there is $850k remaining as of March 2024).

Repayment of the original equity investment of $586,747.24 will more than likely only occur should the company be sold.

Please note, keeping this investment intact is the only way the LPOA can realize gains in perpetuity from the LHC by means of:

1) Protecting the home values of all 2400 residents who are all benefiting from the gains of living in a master planned community that includes a golf course

2) Protecting the home values of first and second tier residents (700) by protecting the land around their homes through controlling membership guidelines at the golf course (ie, keeping this from becoming a public golf course, private course under separate ownership, or land turned into commercial use; these changes could be catastrophic to local homeowners)

3) Keeping control of the building assets to use for LPOA uses such as office space, food and beverage access, community events, committee use (yoga, pilates, etc), and to host banquets for members

4) Financial gains from interest payments received each month, which could eventually be increased to match the prime rate (such as 6% or 7%, or roughly $3,000/mo), in perpetuity