BETTER TOGETHER: TRANSPARENCY SERIES
The LPOA and Lakewood Oaks Country Club
Presented by the Lakewood Property Owners Association
General Manager Mark Reid
Published: May 8, 2017
Edited: March 15, 2024

Part 4: The Recession Years (2007 - 2009)

Introduction

The Acquisition segment of the course ended December 31, 2007, and the first 2 years of management were difficult. We faced several issues including transitioning the renewal of memberships from equity members, the impact of the Great Recession on our business, and managing operational changes with our Food & Beverage Department.

Additionally, we had hired Evergreen Alliance Golf Limited, L.P (EAGL) Management, an outside vendor, to manage the course. Based out of Dallas, they managed our facility from off site, and due to unfavorable outcomes, we ended the 3-year contract after 2 years.

The Backdrop of the Great Recession

Our first two years of management took place behind the backdrop of the Great Recession. The Great Recession started in December of 2007, yet most initial effects of the recession were beginning to take hold on the East and West coasts and it would take some time to migrate to the Midwest. The Great Recession was the deepest recession since the Great Depression of 1929. For a point of reference, the Dow Jones Industrial Average closed on December 31, 2007 at 13,264. It would officially end in July 2009.

Initial Management Transitions

The first months of control of the Golf Course required a series of important decisions.

October 15, 2007 **Initial Management Decisions:**
The new LHC Board of Directors 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 Evergreen Alliance Golf Limited, L.P (EAGL) to provide Professional Management of the Lakewood Oaks Golf Club.

Dec 31, 2007 The partial year ownership and operation ending December 31, 2007 placed an initial financial burden on the company.

Jan, 2008 The LPOA now started their first full year of control over the Lakewood Oaks Golf Club.

Year One Financial Overview

In order to ensure that initial operations were capitalized going into the 3-year contract agreement with EAGL Golf Management, the LPOA established a line of credit in the amount of **$130,000** that was effective to access by the Lakewood Holding Company (LHC) on January 1, 2008. (Referenced in the Promissory Note).

This fundamentally served as operating capital. LHC agreed to pay 6% annual interest on these funds to the LPOA.

Net earnings at year end 2007 were positive in the amount of $30,282, but this was quickly offset by Interest, debt service and Capital Expenditures for a resulting cash loss of ($69,229). This was not overly concerning as initial startup and transitional costs can result in unfavorable numbers in the first year of operation.

Transitions in the LPOA Food & Beverage Department

The Acquisition led to several changes in our Food & Beverage Departments.

1) **All LPOA Members became Social Members of the LHC.**

   Up until now, LPOA residents were not members at the Clubhouse and did not have open access to the facilities or restaurant. Now, all 2400 residents would be considered Social Members, which included clubhouse usage as well as 6 golfing opportunities per year. LPOA covenants do not allow for the blanket assessment of fees for anything other than dues, so it was not an option (or desire) to charge all 2400 residents a $100/quarterly Food & Beverage fee.

2) **The $100/quarterly Food & Beverage Fee to Golf Club Members was eliminated.**

   Up until now, all equity members had been charged a $100/quarterly fee to mitigate expenses for their dining room. However, with the addition of the 2400 residents who would now be considered "social members" of the clubhouse, this fee for Golf Club members would be eliminated. The Board did not want to single out golf club members for this fee if all LPOA members would have access. Additionally, it was reasoned that the extra volume of potential diners would help to increase revenue. The LPOA did not want to impose a disparity among golf course members and residents.

3) **The Cove Restaurant Closed (Lake Drive), and those services were merged under the LHC restaurant.**

   The LPOA had provided Food & Beverage services through the Cove Clubhouse Restaurant on Lake Drive. However, when the LPOA restaurant moved from the Cove to the Clubhouse, the LPOA opted to transfer these Food and Beverage costs onto the books of the newly formed LHC.

   This cost savings to the LPOA was approximately $165,000 in 2008, ($237,822 factored up by inflation in 2024). These costs were transferred to the LHC budget.

About Food & Beverage Fees in General

When you have a limited number of members in a Private Club and it is not open to the general public, private clubs generally have a Food Minimum that will assure that your members will utilize the dining room at the Golf Club and support the operations.

Therefore, the most realistic goal of the Food Minimum is that it makes all members contribute towards the success of the Club and not let members opt out of using the facility on a regular basis.

We acknowledge that across the country, members and Boardrooms have argued about the food minimum throughout time and they will continue to do so in the future.

In the case of the new Lakewood Oaks Golf Course, the board opted to lift the minimum on the 265 golf members, while simultaneously granting Social membership to 2400 residents. The hope is that the large volume of potential diners would help to mitigate the need for a minimum required charge on anyone.

Food and Beverage prices did spike throughout the years, while the budget included banquets, holiday events, buffets, celebrations, and a variety of services provided to the members of the association.

But after 18 years of shifting priorities, incremental improvements, and increased Argyle support, the 2024 Food and Beverage budget is at a record low of $105,000.

The Closure of the Cove Restaurant

The existing Finance and Facilities Committees, Board, and Staff were in agreement that the Cove Clubhouse should be eliminated.

The essence of this Board Decision in 2007 regarding the Food and Beverage minimum, combined with shutting down the Cove Clubhouse Restaurant, was that in the short term, the **LPOA Board saved the LPOA members approximately $125,000 per year by transferring these costs to the newly acquired Lakewood Oaks Golf Club.**

This strategy in principle was good under the belief that the Golf Club could manage costs better than the LPOA had previously done, and be able to generate higher revenues.

However, the elimination of the Food Minimum as well as the looming recession would negate this strategy initially. What was certain at this point was that Lakewood did not need two (2) private member dining venues in the community.

2008 Financial Status Snapshot

As a checkpoint, the Lakewood Oaks Golf Club is beginning its first full year of operation under LPOA control with the following financial conditions;

A. Facility Debt of approx. $2,475,000

B. Interest on facility debt @ 7.25%

C. Interest on LPOA equity of $360,684 @ 6%

D. A line of Credit payable to LPOA in the sum of $130,000

C. $500,000 of deferred maintenance.

D. Aging fleet of company owned Golf Carts.

E. Aging fleet of company owned turf maintenance equipment.

F. Initial cash loss of ($69,229) in first (partial) year operations.

The Downward Direction of 2008

The 2008 Operating year placed the emphasis on trying to stabilize the company and increase revenue. This was a hard year because the LPOA had turned over operational control to EAGL Golf Management Company for a three-year contract. A hands off approach to EAGL was required as they were the professionals in charge by contract.

The financials were steadily slipping throughout the year and the LHC and LPOA Board of Directors became increasingly aware that steps would be needed to improve the financial condition of the Lakewood Holding Company.

The Dow Jones Industrial average closed on December 31, 2008 at 8,776 points. Under EAGL Management, the Lakewood Holding Company Inc. ended December 31, 2008 with net earnings of $66,349 offset by Interest, debt service and Capital Expenditures for a resulting and staggering cash loss of ($271,681).

The ($271,681) combined with the prior ($69,229) cash loss was deeply concerning to the Board of Directors and it was evident that additional operating cash would be required to be infused into the company.

Upon scrutiny of EAGLs financial data, the Board became aware that EAGL was masking the loss by extending the payments of suppliers by up to 160 days.

This was all on the heels of the burst of the housing market bubble and the largest bankruptcy in history when Lehman Brothers filed for bankruptcy protection on September 15, 2008.

Dec 2, 2008 Articles of Amendment_Articles of Incorporation

Recession fears and anxiety were rampant in the fourth quarter of 2008 as many other major banks and corporations followed into bankruptcy, sending the recession deeper and deeper. At this point it was gravely unfortunate that the Dow Jones would not bottom out for another three months when it closed at 6,547 on March 9th of 2009.

EAGL Management Requests Credit

In May of 2009, EAGL Golf Management requested an additional $40,000 extension of the Line of Credit, and then again on June 30, 2009 they requested an additional $42,500. Both extensions were granted, bringing the total line of credit to $212,500. This was necessary to keep the company operational.

On June 11, 2009 the LPOA Board of Directors approved the final equity payment to the former members of the LOGC, bringing the total LPOA invested equity in the Lakewood Holding Company to a final planned amount of $587,146.

With their hands tied due to the contract with EAGL Golf Management, the board continued to watch as the Lakewood Holding Company's financial situation worsened. The deep recession left few moves available to the Board but it was evident that something would need to happen with no end in sight to the recession.

During the prior six months the Board of Directors had been working in conjunction with an ad-hoc Golf Course Enhancement Committee, Finance Committee and Facilities Development Committee on an alternative strategy. The Board just needed to get everything planned and budgeted by the November 2009 Budget Approval.

Sep 24, 2009	501(c)7 IRS Application and Declaration of Tax Exempt Status IRS Form 1024: Application for Recognition of Exemption Under 501(a). This document states our business purpose. "A section 501(c)7 organization is permitted to receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. Of the 35 percent, not more than 15 percent of the gross receipts may be derived from the use of the club's facilities or services by the general public. Income in excess of these limits may jeopardize your continued tax-exempt status"

In October of 2009, EAGL Golf Management informed the LPOA Board that they would need an additional $255,000 extension to the line of credit by 12-31-09.

Terminating EAGL Management

On November 30, 2009, the Board of Directors informed EAGL Golf Management that we were terminating their contract and we would begin the 90 day contract close out provision. This was the first step in taking back control of the Lakewood Oaks Golf Course and placing costs in line with revenue.

Reorganizing and Taking Control

In December, the LPOA Board approved the reorganization plan that would strongly impact the ability of LPOA to consolidate, and better manage the business of the Golf Club:

Dec 2009	LPOA Staff was relocated from the Administrative Offices at Bayview over to the Lakewood Oaks Clubhouse, where they could be on-site to oversee all business (in lieu of EAGL mgmt)
	The LPOA would take back the Food and Beverage department (as it was prior to the acquisition), thereby taking these costs and revenue off the Lakewood Holding Company books.

The LPOA would now lease the first floor from the LHC for the purpose of office space for the LPOA Staff and LPOA Food and Beverage amenity operations.

Additionally in December, the LPOA acquired an additional $275,000 of LHC equity through the issuance of a fourth promissory note. This would bring the LPOA equity up to $861,746.

The Lakewood Holding company ended December 31, 2009 with net earnings of only $54,417 offset by Interest, debt service and Capital Expenditures for another staggering cash loss of ($278,247). The company was shored up by end of year with the infusion of $375,078 in line of credit and equity.

Positive Steps in 2009

The only good news out of 2009 was that the LHC was able to refinance the principal facility loan with Metcalf Bank and reduce the interest expense. At 2009 year end, the balance of the loan was $2,235,102.

Additionally, the LPOA had saved over $300,000 in cash in 2008 and 2009 by previously shifting Food and Beverage operations into the Lakewood Holding Company. Moving forward, these allocations would end as of January 2, 2010, and the Food and Beverage expenses would be shifted back to the controlling company, LPOA.

The End of the Recession

Comparatively, Major Corporations like GM, AIG, and Chrysler were still trying to reorganize at year end 2009 after their bankruptcies in that year. The Dow Jones Industrial Average ended December 31, 2009 at 10,428.

With the Great Recession officially ended by July of 2009, it would be evident that the Midwest would be late and very slow to recover. But it was also clear at year end that we were in recovery, and beginning with full control on January 1, 2010 this would be a turning point.

Thank You's Are in Order for Support During this Time

Throughout these articles it is very important to thank all of the wonderful members of the Lakewood Oaks Golf Club. Without their support, even during the deepest and most uncertain moments of the Great Recession, the financial impact on our company would have been much worse, if not even catastrophic. A debt of gratitude is due. This debt of gratitude also extends to all of the wonderful LPOA members who bought six pack golf cards, provided support and ideas, and frequented the Argyle to help keep the Lakewood Oaks Golf Club as an anchor of our community.

Up Next: Part 5, The Recovery

Stay tuned for Part 5, where we lay out "The Recovery Years," as Lakewood Oaks Golf Club climbs out of financial distress. Thank you for engaging to learn more about one of our greatest amenities!