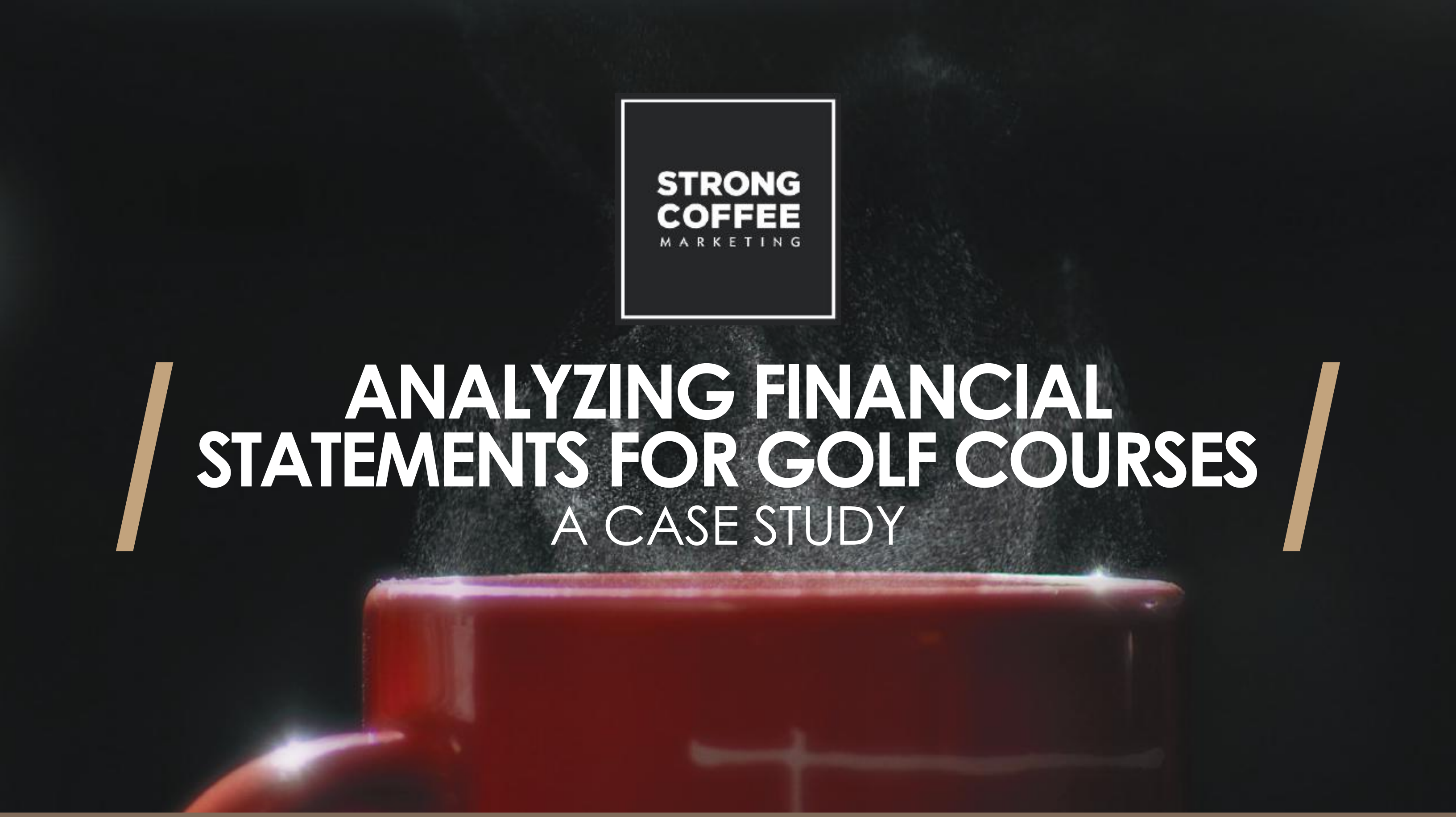


ANALYZING FINANCIAL STATEMENTS FOR GOLF COURSES

A CASE STUDY

Welcome to our financial statement case study. In this article, we are going to review the financial statements of a golf course and point out things you can look for and be mindful of as you look at your year-end statements. Our goal here is to support you in learning and discussing some of the intricacies of reviewing your financial statements – how do the numbers speak to you?

In another article, we will talk about strategies you can take from the trends we see. What can you differently? What innovative ideas can you take to increase revenue? And much more. But first, let's focus on what to look for in the numbers and trends we see in this case study.

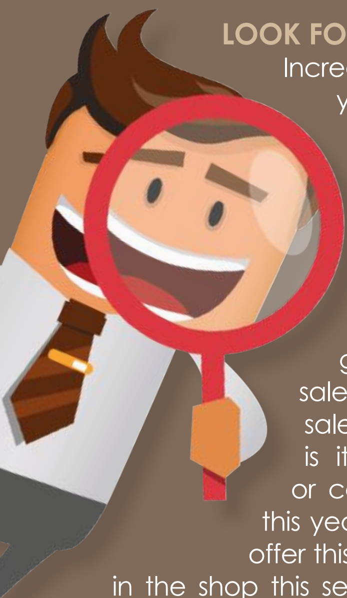
First, let's focus on what to look for in your numbers. Here are the numbers from a sample golf course we will focus on for the rest of the article.

From the untrained eye, one may look at this golf course's financial statements and see that revenues and profits are up, so clearly there's nothing else to see here. But in truth, there are some disturbing trends that can be seen in these numbers. If they can be spotted, researched and an action plan for them created, they can be mitigated and turned around for the positive.

In this piece we're going to pick apart this financial spreadsheet and showcase the trends we are noticing, and highlight what next steps should be taken going into the next golf season to help ensure negative trends end and positive ones continue. **LET'S GET STARTED.**

Revenue	2016	2015	2014
Green Fees	$ 1,140,000	$ 1,280,000	$ 928,000
Memberships - Adults	$ 156,000	$ 168,000	$ 173,000
Memberships - Couples	$ 31,000	$ 20,000	$ 13,200
Memberships - Seniors	$ 74,000	$ 72,000	$ 68,000
Membership - Juniors	$ 22,000	$ 32,000	$ 38,000
Tournaments	$ 220,000	$ 248,000	$ 365,000
Dining Room	$ 400,000	$ 240,000	$ 280,000
Snack Shack	$ 150,000	$ 125,000	$ 132,000
Lounge	$ 268,000	$ 210,000	$ 196,000
Pro Shop	$ 505,000	$ 485,000	$ 482,000
Rentals	$ 123,000	$ 99,000	$ 98,000
Lessons	$ 22,000	$ 33,000	$ 37,000
Sundry	$ 33,000	$ 32,000	$ 33,000
	$ 3,146,016	$ 3,046,015	$ 2,845,214
Cost of Sales	$ 2,450,000	$ 2,430,000	$ 2,230,000
Gross Margin	$ 696,016	$ 616,015	$ 615,214
Expenses	$ 2,016	$ 2,015	$ 2,014
Advertising - Green Fees	$ 21,000	$ 28,000	$ 32,000
Advertising - Memberships	$ 10,000	$ 10,000	$ 9,000
Advertising - Food & Beverage	$ 8,000	$ 4,000	$ 8,000
Accounting & Legal	$ 32,000	$ 31,000	$ 29,000
Bad Debts	$ -	$ 900	$ 450
Bank Charges & Interest	$ 4,200	$ 3,500	$ 2,900
Car Allowances	$ 5,000	$ 6,000	$ 13,000
Dues, fees & travel	$ 5,200	$ 3,200	$ 4,600
Interest & Long Term Debt	$ 98,000	$ 87,000	$ 82,000
Office Salaries & Benefits	$ 164,000	$ 132,000	$ 128,000
Office Supplies	$ 21,000	$ 18,900	$ 39,000
Promotion & Other	$ 1,000	$ 1,200	$ 1,000
Telephone	$ 6,000	$ 5,500	$ 5,200
Taxes & Insurance	$ 28,000	$ 27,000	$ 25,500
	$ 403,400	$ 358,200	$ 379,650
Profit	$ 292,616	$ 257,815	$ 235,564

WHAT TO LOOK FOR



LOOK FOR INCREASING TRENDS

Increasing revenue numbers year over year is a good sign for any business, but increasing expenses can be a problem. There are times you would expect expenses to increase as revenue grows, but this is not always the case. In this financial statement, we are seeing great increases in green fees, pro-shop and rentals sale and finally food and beverage sales. This is awesome to see, but why is it happening? Were the weather or course conditions particularly good this year? Did you have a very successful offer this season? What clubs did you carry in the shop this season? What about clothing lines? Did your members buy more pro-shop products or was it mostly public, why? What made the huge difference in food & beverage sales this year over last? By asking these questions, you can be sure of the reasons behind the trends you're seeing. Was it a fluke? Or was there actually changes made that led to this extra revenue. By digging just a little deeper and asking some questions, you can be sure you're making a solid plan for the following season.

LOOK FOR DECREASING TRENDS

Decreasing revenue numbers are a troubling sign or an opportunity for improvement, depending on how you deal with it. In this example, we can see the membership sales as a whole are steadily dropping, despite couples and senior members showing increases. Both adult and junior memberships have shown steady drops year-over-year for the past three years.

This is a problem that requires immediate attention. Tournament and lesson revenues have also been plummeting. From 2014 to 2016, tournament revenue has dropped nearly 40%, lessons are in the same boat with a drop around 40%. These indicators show there's an issue here you should work to resolve. This is the time to review your competitor's offerings in this area, and talk to your members/tournament organizers to determine the root cause of the drop.

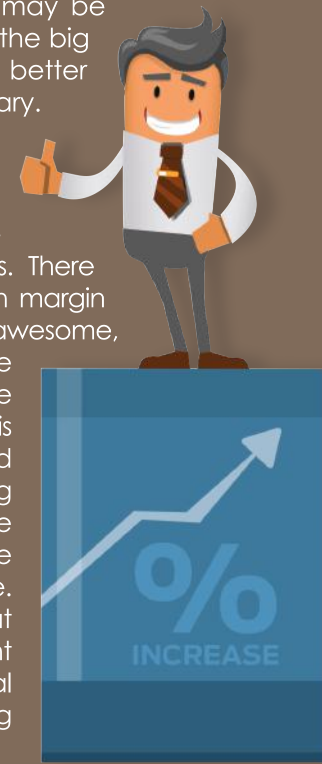
LOOK FOR ANOMALIES

Anomalies in financial terms are for numbers that stand out, or trends that stand out. In this chart there's a few odd things happening that either: a) don't make logical sense or ; b) are much higher or lower than one would expect.

Let's look at some of the logical oddities first. In this chart we've seen increasing green fee revenue despite advertising expenses for green fees dropping steadily. This is odd, usually the more you advertise, the more sales you'll generate. This is time to ask how your advertising in this space is performing? How did people hear about you and who decided to come play at your course?

Next oddity we spotted is the fact that pro-shop and food & beverage revenues went up significantly, despite seeing drops in memberships and tournaments. Why are members and tournament players not buying in the pro-shop and buying food & beverage? This is a question worth asking, because 'best guesses' get you nowhere.

Another anomaly to focus on is increased expenses or revenues that are out of the norm. In this financial statement, there's a few numbers that stand out. In 2016, the $400,000 in dining room sales is interesting, and so is the office salaries increase of $164,000 – could these be related? Was a new chef hired perhaps? There's a few other odd numbers on this chart, most of which were in previous years where your data may be limited. Still though, when looking at the big picture like this you can get a much better sense if numbers are out of the ordinary.



LOOK FOR PERCENT INCREASES

One other less noticeable anomaly this year is the percent gain of the gross margin over the year previous. There was a 13% increase year-over-year in margin (revenue minus cost of sales) – that's awesome, but why? What changed? Were we more profitable? How can we continue this trend? Another example in this chart is when you look at total food and beverage sales. When looking at 2016 compared to 2015, we see a 42% increase in total sales from the dining room, snack shack and lounge. That's a huge increase, but what drove it? By identifying these percent increases you can gain additional perspective into what is really adding to your bottom line.

LOOK FOR PERCENT DECREASES

When it comes to revenue sources, decreases are generally a very bad sign. For this financial statement, we see revenue decreases in adult and junior memberships, and also tournaments and lessons. Even though at the end of the day our total sales are up, these four profit sources are showing serious decline. If it wasn't for our strong food and beverage sales, it's very likely this year would have seen an overall decline in revenue. This is why looking more closely at financial statements will help you better understand your performance for the year. It is your job to come up with a strategy to attempt to reverse these troubling trends. How can you get more memberships on the books? What about tournament and lessons?

With a little extra effort, you may be able to turn these numbers around and make 2017 an incredible year combined with your fantastic food and beverage sales and course revenues. A final point here, when it comes to % decrease in expenses, this can be good and bad. If your advertising spend is decreasing for revenue sources that are also decreasing, this is something you should fix. If your staffing costs are decreasing, and so are food & beverage sales, this may be because you're understaffed and providing a lower quality of service. Analyzing your financial statements and looking for correlations between the numbers is often a great way to identify areas for improvements, which also leads us to our next point.

PODCAST

LISTEN TO A PGA PODCAST

Creating and Maintaining a Successful Budget with Wayne Middaugh

PGA of Canada 25 year member and Executive Professional at Port Carling Golf & Country Club, Wayne Middaugh discusses his experience with creating and maintaining a successful budget with fellow PGA member Kevin Layte and Manager of Education & Programs at the PGA of Canada, Matt Allen. Wayne will talk about his unique set-up at Port Carling, how he manages the budget with his senior staff, how to plan for major projects, and most importantly how to maintain budget throughout the year.

LOOK FOR RELATIVITY

Many of your revenue sources impact your other revenues and also expenses. Try not to look at each revenue and expense individually, but also in comparison to others. In 2016 we saw a large decrease in tournament revenue, but a big boost in green fees – was this boost simply because the course was more available for public play, or was there another reason? Did the large salaries expense increase this year have an effect on sales elsewhere? Did the added cost of higher-qualified staff impact the bottom line in a positive way?

How did your advertising expenses relate to the amount of sales generated from each items you've advertised? Does your advertising budget align with your expected revenue per source? These are just a few examples of questions you can ask yourself when you take into account the whole picture of your expenses.

LOOK FOR STABILITY

Stability in expenses is often a good sign (especially with increasing profit), but when you look at revenue sources, this could be a sign that you're plateauing and headed for a decline. For these financial statements, there's two items in revenues that are showing stability and that is memberships as a whole and sundry revenue sources. Sundry in this instance could be revenue like club cleaning, advertising sales, interest from investments or other revenue sources. In our opinion, only the memberships are one to worry about in terms of trends. I would want to keep a close eye on membership sales going into the next season to ensure this slight upward trend continues/improves. In terms of expenses, we see a few that are stable – like membership advertising and dues, fees & travel and promotions expenses. This is nice to see, but only when the revenue sources directly tied to them are not suffering because of it. We would suggest, in this instance, more money needs to be put into membership advertising and perhaps in different ways than before, to offset the decline we've been seeing in sales in specific membership types.

LOOK FOR REBOUNDS

If you're regularly on top of your business financials, it's pretty easy to spot trends and implement changes to improve them. By looking for rebounds year over year in specific revenue and expense categories, you're given valuable information on whether the changes you implemented had an effect on the bottom line. In this example, there's many examples of rebounding items that should be investigated further, and specific action items you took that could have caused the change, should be identified. For example, the large increase in green fee sales in 2015, or the huge increase in dining room sales in 2016, and finally the large increase in office salaries in 2016. By identifying rebounds and the steps you may have taken that caused them, you can get a better sense of the impact your 'fixes' have had.

We hope that helps you understand some of the intricacies of financial statements, and how they tell an in-depth story about the health of your golf course. We encourage you to spend the time to identify as many trends as possible in your financial statements, as these should be what drives your marketing strategies for each and every year going forward. After all, money talks, so listen to what it has to say to help take your golf course to the next level.

Stay tuned for our next article that will identify specific marketing strategies you should take to improve any areas of concern in your financial statements.

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