

Cloquet Country Club Stock Plan

6/24/2015

Why?

The first draft of a budget for the 2015 golf season was going to include a 5% dues increase and a \$50 one-time special assessment. After entering those numbers into our spreadsheet, the cash flow deficit for the season was projected to be \$90,000. Yes - \$90,000! How do you make up \$90,000? Dues would have to increase by \$400 to \$500 per member – and you'd have to retain every member. From November 2013 to April 2014, we lost 54 members – with a dues freeze! How many would we lose with a \$400 to \$500 dues increase?

In order to survive the 2015 golf season, we were able to convert our new nine construction loan of \$480,000 to interest-only for the next two years. That will save us \$65,000 each year, but it is not sustainable. We also now require bank account or credit card information for all member accounts. That has dramatically improved our cash flow and for the first time in many years, other than a few old balances, all our member accounts are current and we were able to pay all our bills – making us current with every vendor. Our dues increased 10% to \$1,650 in our ages 40 through 69 categories. That is the same price the family rate was in 2008, and the first increase in the single rate since 2010. We also restructured our non-local category. This category was our single largest category. Though it is not as liberal as it was last year, it is still the most generous non-local category offered at any course in the area. Our committee structure has returned and is very active. As of this writing, we have 182 members. Our most recent projection, as of May 12, 2015, shows a cash flow deficit of \$15,000 for 2015. This deficit would be \$80,000 if we were paying principal on our long-term debt.

When we are not interest-only, our debt payments each year are roughly \$100,000 on the back nine and \$40,000 on course equipment purchases. Just these debt payments alone are \$769 per member.

With the downturn in the golf industry, most industry professionals now agree that offering discounts and/or reducing dues and fees may be a short-term fix, but is not a long-term solution. Our track record supports that belief.

Our best solution (only solution?) is to reduce or eliminate our long-term debt.

What?

We've discussed a few options:

- **Straight donation:** Asking members to make a donation to the Club. We would offer some incentives - free rounds of golf or free season long golf passes - at certain levels of donations. We chose free rounds of golf and/or free season long golf passes because neither has a true, hard cost to us. Though some free rounds would certainly be used by someone that would have paid green fees, and some of the season passes would be used by someone that would have joined the Club anyway, the vast majority of the freebies would be used by players that would not otherwise have played. With those players, we would expect to receive some additional revenue in golf carts, range balls, or food and beverage sales. We also may attract some new members by having them try out our course. Why did we not go the straight donation route? Donating would be voluntary, so we would have a limited number of members donating and would therefore not raise enough money to significantly reduce our debt.
- **Loans from members:** Asking members to loan us money at more favorable terms than we have today. Reduced interest rate? Interest only? Longer amortization? We did not believe that we could raise enough money and save enough money with better terms to make a significant impact. If we were able to raise the entire \$480,000 and pay just 3.25% (our current rate is 6.5%) and amortize the loan over 20 years, our savings would be \$60,000 per year. That is not enough to generate a cash flow surplus and we would still be paying for the new nine 20 years from now.
- **Stock:** Asking members to purchase at least one share of stock in Cloquet Country Club. Each share would be an equity position in CCC, meaning you

actually own part of the Club. This is the option we are proposing for the following reasons:

- To be a golfing member at CCC, participating is mandatory, and therefore we should be able to raise much more money than any other option.
- Each share of stock represents an equity interest in the Club.
- The discussed incentives under the straight donation plan would also be offered under the stock plan.
- Under the terms and conditions set out in the Club's corporate documents (and explained in more detail later in this document), you may be able to redeem your shares.

When?

- At a special meeting of the CCC membership to be held at 6:00 PM on Wednesday, June 24, 2015, at Cloquet Country Club, the members will vote on whether to amend our By-Laws and Articles of Incorporation to authorize CCC to issue stock.
- If authorized to sell stock, sales of stock will begin on July 1, 2015.

Who?

- Golfing members:
 - All golfing members will be required to purchase at least one share of stock with the following exceptions:
 - Members under age 30
 - Members age 80 and older
 - New members in their first year
 - Golfers using a free season long golf pass
 - The members' age as of October 31st of the previous golf season is used for determining in which membership class one belongs.
 - All membership classifications require owning just one share of stock, whether it is a single, couple, or family membership.

- Social members:
 - A social member does not have to purchase a share of stock.
- Any golfing member or social member that is not required to purchase a share of stock may purchase a share of stock if they choose.
- All shareholders must supply CCC with bank account or credit card information. This information will be used for both payments on shares purchased and payments on accounts receivable.

How?

- From our most recent fiscal year-end October 31, 2014, financial statements, our book value at CCC was \$757,000. Setting the initial price at \$1,000 per share, with the share price being dictated by the book value, we will offer 757 shares at \$1,000 per share to be sold beginning July 1, 2015.
- The future price of the shares will always be the book value divided by the number of shares outstanding. We will always have at least 757 shares outstanding. As discussed later in this document, the number of shares outstanding may be increased with membership approval.
- Once each year, when our CPA firm has completed our fiscal year-end financial statements, the book value will change.
- All share purchases made by a 2015 golfing member of CCC prior to October 1, 2016, must come from CCC's shares.
- Certain incentives will be offered during the initial sales period of July 1, 2015, through September 30, 2015. The incentives:
 - Payment for the shares may be made over 25 months, beginning October 2015 and ending October 2017. For any shares purchased after September 30, 2015, payment may be made over 12 months.
 - For each share paid in full by September 30, 2015, that member will receive a \$50 gift certificate good in the CCC clubhouse.
 - If more than one share is paid in full by September 30, 2015, that member may use their free rounds of golf or free season long golf pass during the 2015 golf season. All other free rounds and free season passes may not be used until the 2016 golf season.

- For members that purchase more than one share, the following incentives will be offered (any free season golf pass may be exchanged for 30 free rounds of golf):
 - 2 shares = 1 free season golf pass
 - 3 shares = 1 free season golf pass plus 15 free rounds
 - 4 shares = 2 free season golf passes
 - 5 shares = 3 free season golf passes
 - 6 shares = 3 free season golf passes + 15 free rounds
 - 7 shares = 4 free season golf passes
 - 8 shares = 4 free season passes + 15 free rounds
 - 9 shares = 5 free season passes
 - 10 shares = 7 free season passes
 - 15 shares = 11 free season passes
 - 20 shares = 15 free season passes
 - 25 shares = 20 free season passes
- All free rounds of golf and all free season golf passes must be used by the end of the 2035 golf season.
- For any member purchasing 10 or more shares, the CCC Board of Directors will be given some leeway to negotiate equivalent incentives to those listed.
- Any golfer using free rounds of golf will be limited by CCC's policy as to when and how many times they may play as a guest.
- For a golfer to be allowed to use a free season long golf pass:
 - They cannot be the purchaser of the shares that resulted in being awarded a free season long golf pass.
 - They must not have been a paying golfing member of CCC during the two previous golf seasons.
 - They must be current with any previous charges at CCC.
 - They must supply CCC with bank account or credit card information, as do all golfing members of CCC.
 - The golfer using the season pass will not be subject to any minimums or assessments that may be in place at the time.

The intent is that the season pass is free, with the only expenses being purchases that they may choose to make.

- The golfer using the season pass does not have to own a share of stock regardless of how many times they have used a free season pass.

Redeeming Your Shares

- Only shares that have been paid in full will be eligible for redemption.
- To redeem a share of stock, the shareholder must be an active member of CCC, meaning either a golfing member or a social member.
- All redemptions will be conducted by CCC.
- CCC will only redeem a share if a prospective new member or an existing member is willing to purchase the share being redeemed and the financial condition of the Club will otherwise allow the redemption.
- The price paid by the purchaser will be the book value on the date of purchase.
- That same purchase price, less a \$25 administrative fee, will then be paid to the shareholder redeeming their share, as long as IRS rules regarding 501(c)7 organizations allows such a sale.
- If a prospective new member or an existing member wishes to purchase a new share, the share that will be sold to them will be determined in this order:
 - The first option to sell a share will go to the member that recruited the prospective new member or existing member.
 - If a prospective new member or an existing member wishes to purchase a share, but they were not recruited by a member, or the recruiter does not wish to sell a share, then there will be a random drawing from a pool of shares in this order:
 - Pool A will be all shares submitted for redemption by deceased members' estates.
 - Pool B will be any of the original 757 shares authorized by CCC that were never sold.

- Pool C will be all shares submitted for redemption that were purchased by September 30, 2015.
- Pool D will be all shares submitted for redemption that were purchased after September 30, 2015.

Voting

- Regardless of the number of shares owned, each shareholder will be entitled to one vote on Club matters similar to what has occurred in the past, with the following exceptions:
 - Each share is worth one vote on the following:
 - Any capital expenditure of at least \$50,000 paid from cash reserves. At least 50% of the shares outstanding must vote for this to be valid, and at least 75% of the shares voting must approve this expenditure.
 - Any cumulative debt commitment of \$50,000 or more. “Debt commitment” will be defined so as to exclude leases not counted as debt on our financial statements, such as those for our golf cart fleet. The intent is that the Club cannot assume less than \$50,000 of debt many different times, thereby resulting in total debt of more than \$50,000, without membership approval. With any new debt incurred after October 1, 2015, any transaction that would bring the cumulative amount of the Club’s debt up to \$50,000 must be approved by the membership. As with the capital expenditure vote explained earlier, at least 50% of the shares outstanding must vote for this to be valid, and at least 75% of the shares voting must approve this transaction.
 - A vote to increase the number of shares authorized. At least 50% of the shares outstanding must vote for this to be valid, and at least 75% of the shares voting must approve this authorization.

- A vote to change this document. At least 50% of the shares outstanding must vote for this to be valid, and at least 75% of the shares voting must approve any changes to this document.
- A vote on the sale, liquidation, and/or closing of the Club. Each owner of a share must be notified of a meeting regarding the sale, liquidation, and/or closing of the Club at least twenty days in advance. At least 75% of the shares outstanding must vote for this to be valid, and at least 90% of the shares voting must approve the sale, liquidation, and/or closing of the Club.
- Absentee ballots will be allowed for any vote where each share is worth one vote.

Other Issues

- All sales, redemptions, and transfers of shares must be approved by the Board of Directors of CCC.
- A member that resigns from the Club forfeits their shares. Instead of resigning, if the member converts to a social membership and maintains their social membership for each year they are not a golfing member, their shares would be eligible for redemption.
- If a member resigns in November and converts to a social membership, they would owe a \$500 reinstatement fee to convert to a golfing membership in the spring for the next golf season. The intent is that we do not have members resigning in November only to rejoin again in the spring.
- For bookkeeping purposes, during the initial issuance of shares, and ending on October 31, 2017, the Friends of Cloquet Country Club Committee will nominate a Treasurer to maintain the Club's stock register and handle all transactions relating to CCC's shares. This Treasurer must be approved by the Board of Directors.
- Beginning on November 1, 2017, the CCC Finance Committee will nominate a Treasurer to maintain the Club's stock register and handle all transactions relating to CCC's shares. This Treasurer must be approved by the Board of Directors.

- It is the intent of this plan that all funds received from the initial sale of shares will go directly to reduce our long-term debt of approximately \$480,000.