

IronOaks

**Proposed Golf, Fitness and Tennis
Business Plan**

February 2010

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1.0 Executive Summary

The IronOaks community, an active adult complex is located in the southeast valley of the Phoenix area. Located in the community are two golf courses: Ironwood Golf Course is an 18 hole course and Oakwood is a 27 hole course. These 45 holes of golf offer a challenging layout and beautiful views. The property includes a Pro Shop; driving range, cart storage and maintenance buildings. In addition, the Oakwood facility has a 14 court tennis facility and fitness center. IronOaks Golf, Tennis and Fitness attract a target market primarily made up of homeowners. Some outside use is permitted for Tennis and Fitness. The golf courses presently promote outside tournament play, with little coordination with our food and beverage operation, and daily outside fee play.

The community consists of just over 4,000 homes with approximately two thirds of residents residing here year round. The remaining residents reside here on a part time basis, varying between three to nine months. The community also has approximately 210 homes that are rentals. Renters are entitled to the use of the amenities on the same basis as homeowners.

The open areas, greenbelts and recreational facilities add to the quality of life in a community and to the community's attractiveness for future homebuyers. Although not all homeowners play golf or use the other recreational facilities, the majority of homeowners chose IronOaks for the life style it offers.

The presence of such amenities adds to the value of the residential properties and to the desirability of the community as a place to live. Information reviewed shows that homes in IronOaks sold for 23% higher prices than comparably sized homes in traditional communities (no amenities) in the 85248 zip code and they held their values better than traditional communities.

The Board considers the purchase of remaining amenities in IronOaks a "strategic investment" versus a "financial investment" with the goals of:

- Restoring the amenities to the state that existed when a majority of the Homeowners purchased here and to maintain these amenities at this level in the future.
- Assuring that the future direction and use of these amenities are in concert with the wishes and expectations of the Homeowners versus a non-interested third party whose main objective may be personally financially driven.
- Negate the potential risks associated with an outside buyer acquiring these amenities [amenities tied up in bankruptcy due to an undercapitalized buyer, buyer has a different set of objectives than homeowners, potential conflicts in our ability to effectively use our already existing amenities, etc.].

All of the above strategic issues are focused on improving and maintaining the overall quality of life here at IronOaks while protecting the investment in our community.

2.0 Objectives

The objective of the Board with respect to IronOaks Tennis and Fitness Facilities for the first two (2) years of operation include:

- Upgrade fitness equipment, making the facility more competitive to fitness centers in the immediate area.
- Develop a marketing plan to attract homeowners using other facilities to rejoin IronOaks Fitness Center, regaining market share and improving revenue.
- Resurface Tennis Courts, improving their safety and playability.
- Develop a marketing plan to attract homeowners no longer using the Tennis Facility to rejoin and to attract limited outside membership, regaining market share and improving revenue.
- Determine homeowner's potential demand for additional use, such as pickle ball.
- Review homeowner goals with management and staff to meet and exceed expectations.
- Apply for and gain a change in tax status to significantly reduce Association tax liability.

The objectives of the Board with respect to IronOaks Golf Courses for the first two (2) years of operation include:

- Improve the condition of the Oakwood Golf Course to maintain current membership and regain homeowner-players who have joined other local clubs.
- Working with the Course Superintendent, determine and complete the immediate improvements needed for both Ironwood and Oakwood Golf Courses.
- Determine a long-term plan for both maintenance and course improvements.
- Establish a Reserve Fund that is funded from golf revenues.
- Develop a marketing plan to regain lost homeowner play and attract outside tournament play.
- Review homeowner-player goals with management and staff to meet and exceed expectations and insure revenue expectations are met and exceeded.

3.0 Mission

The Board's Mission is to:

- **ENHANCE** and **ENRICH** our lifestyle in IronOaks
- **PROTECT** our investment
- **CONTROL** the environment in IronOaks

4.0 Acquisition Overview

The purchase price is \$4,000,000. IronOaks homeowners will be assessed \$1,000 per household, which can be paid over a six-year period. RCI will carry the mortgage for the unpaid balance for six years at a fixed interest of 5%. Homeowners can pay the assessment in full up front or pay with interest over a six-year period (\$200 each of the first 5 years and an interest only payment of \$186 in the sixth year). \$1,200,000 from the HOA reserve will be moved forward to pay for initial first year necessary improvements.

5.0 Management Summary

The Tennis and Fitness Center operating costs will initially require a user fee. It is anticipated that these facilities will maintain the current management and staffing structure for some period. Homeowner input will be sought on the different operational models, which could enhance these facilities.

Our proposed year one (1) golf budget includes \$50,000 either to hire an outside management firm to oversee the golf operations or to hire a consultant to assist the HOA in developing an operational plan for this amenity. After one year of experience, the HOA will evaluate the operations and determine if it is desirable to continue outside management or opt for an HOA operated facility similar to Cottonwood/Palo Verde.

Management personnel of these facilities will report directly to the General Manager of the Association.

5.01 Personnel Plan

During the first year, we will evaluate staffing levels to determine appropriate levels. Initially, there may be a need for one additional accounting person.

6.0 Financial Summary

Separate financial projections have been prepared for golf, fitness and tennis for ownership costs as summarized below.

6.1 Analysis of Golf / Plan

Operating Vision

To bring the course to the standard of play that existed when being used to market IronOaks. Sun Lakes CC and Cottonwood/Palo Verde CC are our major competitors for golf revenue. We will work to improve Ironwood and Oakwood's playability to meet or exceed our competition. The courses add green space to our community and therefore well-maintained courses add to the overall value and desirability of our community.

Homeowner Funding

Golf course operation is forecasted to operate at a surplus. The only homeowner funding budgeted will be to cover liability and property insurance, property taxes, perimeter landscape maintenance and additional accounting staff. Homeowners for our other amenities such as the clubhouse, pools, walking path and the arts and crafts center, just as is done in other comparable communities, cover this type of expense. The cost is forecasted to be \$79 per household in year one (1) and \$54 in year two (2) increasing to \$57 in year five (5).

Forecast Explanation

Rounds of golf are forecasted to drop from 97,000 in 2009 to 90,000 in year one and year two and an increase back to 97,000 by 2014. This is a conservative forecast, recognizing the current economy and the fact that less shotgun starts may be implemented to allow for maintenance that is more efficient.

Revenue and expense estimates are based on a review of the past several years of Robson provided data obtained during the due diligence process. Revenue has been increased 1.5% per year after year one and expenses have been increased 3.0% per year after year one.

.The year one Other Expenses provide for \$50,000 for management consulting or operating management fees that could be required.

While a significant portion of the golf course maintenance equipment with an estimated replacement value in excess of \$1 million is fully depreciated, it may be replaced over a period of 5 years as shown in the forecast.

Capital spending in year one (1) of \$550,000 will be covered by a portion of the \$1.2 million moved forward in the HOA Reserve Fund. The Operating Surplus and the Capital Surcharge will cover the capital spending in years beyond this. Ongoing capital spending is expected to be in the range of \$300,000 per year.

A Capital Surcharge of \$1 per round will be initiated in year one to contribute to the capital spending and in later years toward various course improvements.

The Reserve Fund supported by the excess of Operating Profit and the Capital Surcharge will provide funding for course improvements and unforeseen contingencies.

Golf Plan Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5
Rounds per Year	90,000	90,000	93,000	97,000	99,000
Revenue per Round	25.39	25.77	26.16	26.55	26.95
Revenue \$(000)					
Greens Fee Revenue					
Daily, Annual & Card Fees	2,173	2,204	2,316	2,457	2,548
Outings & Tournaments	112	115	117	118	120
Sales Tax Avoidance	-	100	100	100	100
Total	2,285	2,419	2,533	2,675	2,768
Other Revenue-Merchandise (net)					
Range & Cart Rentals	233	235	239	242	246
Total Golf Revenue	2,518	2,654	2,771	2,917	3,014
Expenses					
Maintenance Operating Expenses	1,306	1,345	1,386	1,427	1,470
Utilities	64	66	68	70	72
Irrigation Water	174	180	186	191	197
Golf Shop Operation	435	448	461	475	490
Carts & Range Expenses	55	57	58	60	62
Advertising & Promotion	50	50	52	53	55
Other Expense	75	24	27	28	31
Total Golf Expenses	2,159	2,170	2,237	2,305	2,376
Operating Income/(Loss) \$(000)	359	484	534	613	638
Capital Surcharge-\$1 per Round	15	90	90	93	99
Cash from Operations	374	574	624	706	737
Capital/Repair Spending					
Equipment Replacement	(350)	(300)	(300)	(250)	(150)
Golf Carts	-	(63)	(75)	(80)	-
Bunkers	(50)	(50)	(50)	(50)	(50)
Irrigation Related	(95)	(62)	(20)	(20)	(20)
New Reserve Study	(20)	-	-	-	-
Other	(35)	(20)	(50)	(50)	(50)
Total Capital/Repair Spending	(550)	(495)	(495)	(450)	(270)
Surplus Cash to Golf Reserve Fund	374	79	129	256	467

* The capital spending in Year 1 will be covered by a portion of the \$1.2 million moved forward in the HOA Reserve Fund

** A decision will be made after Year 1, when the golf course needs have been further assessed, as to whether these funds remain in the Golf Reserve Fund or used to reduce the \$1.2 million moved forward in the HOA Reserve Fund.

6.2 Analysis of Fitness and Tennis / Plan

Operating Vision

To bring the fitness center and tennis complex up to the standard that they were when being used to market IronOaks. Both have experienced a significant decline in membership over the past several years. This is attributed to outdated exercise equipment and tennis courts in need of repair. Additionally, current membership fees are relatively high compared to similar centers in the immediate area. Ownership of these amenities will enable the Association to rectify these negatives by rebuilding the tennis courts, purchasing new fitness equipment, providing necessary repairs and significantly lowering the membership fees.

In addition, resident nonmembers will have access to the tennis courts during nonprime time and when not reserved at other times.

Depending on the expressed interest level of homeowners, the inclusion of other activities such as pickle ball and bocci ball will be explored and pursued.

The Silver Sneaker program will continue, but will be primarily for residents, with limited non-resident membership, due to property tax considerations.

Homeowner Funding

Membership fees are not intended to cover the entire cost of operating this amenity. The operating loss will be covered by the homeowner along with property and liability insurance, landscaping, maintenance, and additional accounting staff. This type of expense is covered for other amenities and in other comparable communities. The annual cost is forecast to be an average of \$74 per household for the five year period.

Forecast Explanation

There will be an upcharge for nonresident membership to at least cover the amount of homeowner funding. This more affordable rate is expected to contribute to an increase in both fitness and tennis memberships. The forecast incorporates increases of approximately 25% and 10% respectively for fitness and tennis.

Revenue and expense estimates are based on a review of past years Robson provided data obtained during the due diligence proces. Non Silver Sneaker membership fee revenue has been increased each year starting in 2012 by 1.5% per year and expenses by 3% per year starting in 2011.

Capital spending for year one (1) is forecast at \$650,000. This will be covered as part of the \$1.2 million moved forward from the HOA Reserve Fund. This capital spending includes reconstruction of up to 10 tennis courts, replacement of fitness equipment, building repairs and upgrades to the air conditioning units. \$10,000 is included to address the water damage/mold issue as recommended by the inspection.

Other operating costs: Several administrative costs that are not directly associated with golf or the tennis and fitness centers will become part of the annual dues assessment. These costs include services like landscaping of perimeter properties, maintenance of parking lots and roads, taxes and incremental insurance costs and accounting costs that will be folded into current operations. It is estimated that these additional costs should be approximately \$300,000 per year.

Fitness-Tennis Plan Forecast

(\$000)

	Year 1	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Membership Fee Revenue					
Fitness Regular	68	69	70	71	72
Fitness Silver Sneaker	85	85	85	85	85
Tennis	<u>42</u>	<u>43</u>	<u>44</u>	<u>45</u>	<u>46</u>
Total Fitness-Tennis Revenue	195	197	199	201	203
Expenses					
Operating Staff	190	196	202	208	214
Maintenance	50	51	53	55	57
Utilities	75	77	79	82	84
Cleaning & Supplies	50	51	53	55	57
Other	<u>40</u>	<u>41</u>	<u>42</u>	<u>43</u>	<u>44</u>
Total Fitness-Tennis Expenses	405	416	429	443	456
Operating (Loss)	(210)	(219)	(230)	(242)	(253)
Capital/Repair Spending					
Building	(90)	(47)	-	(10)	(10)
Fitness Equipment	(90)	(88)	-	(10)	(10)
Tennis Court Rebuild & Other	<u>(470)</u>	<u>(64)</u>	<u>-</u>	<u>(5)</u>	<u>(72)</u>
Total Capital/Repair Spending	(650) **	(199)	-	(25)	(92)
HOA Funding (Required)	(210)	(418)	(230)	(267)	(345)
\$/HOA Unit per Year (4,000)	<u>(53)</u>	<u>(105)</u>	<u>(58)</u>	<u>(67)</u>	<u>(86)</u>

** The capital spending in Year 1 will be covered by a portion of the \$1.2 million moved forward in the HOA Reserve Fund.

6.3 Annual Ownership Costs

With the addition of several buildings, roads, parking lots and land, and operating businesses there will be additional costs. These costs will include insurance, property taxes, maintenance of buildings and some landscaping, accounting costs and similar expenses associated with additional assets. The costs that will become part of annual homeowners' dues are enumerated later in the business plan. However, they are consistent with the costs that similar associations charge, and will keep IronOaks competitive with respect to community finances and operations

Ownership Costs

	Year 1	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Golf Property Ownership Costs					
Insurance-Liability & Property	(60)	(60)	(62)	(64)	(66)
Property Tax (Reduced in 2011)	(175)	(75)	(75)	(75)	(75)
Perimeter Landscape Maintenance	<u>(80)</u>	<u>(80)</u>	<u>(82)</u>	<u>(84)</u>	<u>(87)</u>
Total	(315)	(215)	(219)	(223)	(228)
Fitness-Tennis Ownership Costs					
Property Tax	(60)	-	-	-	-
Insurance-Liability & Property	(6)	(6)	(6)	(6)	(6)
Landscape Maintenance	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Total	(81)	(21)	(21)	(21)	(21)
Additional Office Staff & Expenses	(60)	(62)	(64)	(66)	(68)
Total HOA Expense (Funding) \$(000)	(456)	(298)	(304)	(310)	(317)
\$/HOA Unit per Year (4,000)	(114)	(75)	(76)	(78)	(79)

7.0 Spending from HOA Reserve Fund

Spending from HOA Reserve Fund \$(000)

Year
2010

\$'s Moved Forward in HOA Reserve Fund	1,200	
Spent for:		
Tennis-Fitness Building	90	Includes air conditioning water damage etc.
Fitness Equipment	90	
Tennis Court Rebuild	470	Equipment replacement Rebuilding up to 10 tennis courts Safety rails, light fixture & electrical repairs
Bunkers	50	
Golf Equipment Replacement	350	
Golf Irrigation Related	95	
Golf Misc. Other	<u>55</u>	
Total Spending	1,200	

8.0 Analysis of Ownership Costs

Annual Cost to Homeowner

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
Initial Purchase	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 186
Ongoing Costs						
Golf	-	-	-	-	-	-
Fitness-Tennis	53	105	58	67	86	70
Ownership Costs	114	75	76	78	79	80
Total Ownership Costs	167	180	134	145	165	150
Total	\$ 367	\$ 380	\$ 334	\$ 345	\$ 365	\$ 336

Notes below:

A homeowner may choose to pay \$1,000 in Year 1 and eliminate further payment pertaining to the initial purchase. A homeowner who chooses to pay \$200/year will owe \$186 in Year 6

Year 6 Ongoing Costs of \$150 is considered the ongoing cost per year.

There are approximately 4,000 homeowners

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