Case Study—Sunrise Country Club: Where do we stand financially?

By Katerina Annaraud and Thomas Pencek

Introduction

Dennis Gonzales just got back from a finance meeting of the Club Managers Association of Florida. The main speaker, Philip Trenton, discussed the trends of Florida golf courses. Mr. Trenton presented certain ratios that he believed to be important to private clubs in Florida. Dennis was considering implementing them for his club and wanted to meet with a general manager to discuss his idea. The general manager liked Dennis's idea and enthusiasm and suggested that Dennis come to next meeting with the Board of Directors to share with them other financial information, in addition to the club's financial ratios.

The Problem

From his past, Dennis knows that there are a lot of calculations that can be done. He is interested in knowing whether other people who do the same calculations will get the same results. Dennis knows that it is very important to provide the correct interpretation of those ratios because incorrect ones can result in poor management decisions that may cause businesses to lose a lot of money. He knows that there are multiple ratios that can be calculated, but they always have to make economic sense. Dennis also remembers from his college years that ratios can be created based on either a deductive or inductive approach and can be compared based on either a diachronic or synchronic approach, and he also tries to determine what other useful things can be done with the financial information provided. After the completion of the assignment, he plans to ask a group of MBA students to take a look on his calculations.

Sunrise Background

Sunrise is a private country club with a 36-hole golf course situated on the east coast of Florida, north of Miami. It has 600 members. Located in Florida, it offers year-round enjoyment of golf, tennis, swimming and fitness programs for its members. There is a seasonal nature to the business as heat and humidity concerns limit play in the summer months. The main sources of revenue for Sunrise are golf, food and beverage, and dues. The members are considered owners, and they are a non-profit institution for tax purposes.

In addition, over half of the members are "snowbirds" who only come down for the winter. Over 80 percent of the golf and tennis revenues occur between November and April. Dues are used to subsidize the golf and food and beverage operations. This is particularly true of the food and beverage operations. All food and beverage operations have negative net income.

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Recent demographic changes have occurred where there is an overcapacity of golf courses in the area. Furthermore, there has been a decline in the number of golfers countrywide. Private clubs that offer golf courses in Florida originally are built by real estate developers. The golf course is used as an attraction to potential homebuyers. Once the development is completed, the golf course is usually handed over to the homeowners. The main reason for this is that developers subsidize the operation of the golf course and all the operations to keep the price of memberships low.

The food and beverage operations are considered to be a benefit to the members. Therefore, the prices are kept low so the members can enjoy the benefits of the club and do not have to drive far for a good meal. The diners can enjoy the company of their fellow members in an intimate atmosphere. An executive chef is usually hired to cook the food.

Financial Statements

Another peculiar feature of the private clubs is the income statement. Dues are placed in a separate section and are not part of the revenues. Another feature is that depreciation is placed after all operating expenses and is not considered part of operations. Mr. Trenton stated that the depreciation is an issue. Since it is not a cash expense, private clubs do not consider it an issue and is just reported.

Discussion Questions

Using the information provided in this case:

- Rearrange the income statement to reflect dues are operating revenues and depreciation is an operating expense.
- Compute a common size income statement. Have there been any changes in the revenue or expense makeup?
- Compute the variances for 2013. Which variances are most out of line?
- Using the indirect method, compute a statement of cash flows for 2013. What has been the trend for cash flow from operations? What about investing and financing?
- Compute the current ratio and quick ratio. Is the liquidity im-

Exhibit 1-A

Sunrise Country Club Income Statement

2010-2013	2012	2011	2010
Golf Revenue	$2,061,066	$2,157,700	$1,937,126
Tennis	$80,408	$72,748	$79,015
Food and Beverage	$2,054,180	$1,925,894	$1,729,190
Other Operating Revenues	$71,231	$ 267,562	$60,561
Total Revenue	$4,266,885	$4,423,904	$3,805,892
Cost of Goods Sold			
Golf	$472,673	$511,431	$429,855
Tennis	$22,528	$20,762	$23,001
Food & Beverage	$844,170	$809,043	$695,767
Total Direct Costs	$1,339,371	$1,341,236	$1,148,623
Gross Margins	$2,927,514	$3,082,668	$2,657,269
Operating Expenses			
Employees	$4,164,186	$4,071,951	$3,983,568
Contractual and Rentals	$567,126	$594,456	$572,581
Utilities	$389,677	$377,058	$377,965
Supplies	$398,138	$378,969	$334,903
Marketing Expenses	$181,320	$180,515	$97,638
Repairs and Maintenance	$701,522	$718,554	$692,140
Other Office Expenses	$225,770	$198,905	$192,603
Bad Debt Expense			$75,000
Taxes & Insurance	$324,468	$354,787	$384,062
Other Expenses			
Total Operating Expenses	$8,291,578	$8,216,431	$7,859,083
Operating Income / Earnings			
Before Interest	$ (4,024,693)	$ (3,792,527)	$(4,053,191)
Dues	$4,153,387	$4,163,956	$4,181,670
Depreciation	$1,260,628	$1,314,279	$1,387,807
Non-operating (income)/Expenses	$(6,872)	$(21,568)	$66,246
Net income	**$(1,125,062)**	**$(921,282)**	**$ (1,325,574)**

Exhibit 1-B

Sunrise Country Club Income Statement (cont.)
2010-2013

	2013	2013 Budgeted
Golf Revenue	$2,180,536	$2,150,795
Tennis	$91,257	$81,220
Food and Beverage	$2,152,938	$2,002,013
Other Operating Revenues	$55,696	$65,006
Total Revenue	$4,480,427	$4,299,034
Cost of Goods Sold		
Golf	$592,184	$506,700
Tennis	$23,125	$23,688
Food & Beverage	$912,151	$826,087
Total Direct Costs	$1,527,460	$1,356,475
Gross Margin	$2,952,967	$2,942,559
Operating Expenses		
Employees	$4,330,655	$4,243,594
Contractual and Rentals	$484,596	$475,557
Utilities	$381,515	$396,427
Supplies	$416,498	$360,982
Marketing Expenses	$182,867	$151,025
Repairs and Maintenance	$650,673	$699,030
Other Office Expenses	$228,298	$210,092
Bad Debt Expense		
Taxes & Insurance	$342,467	$359,478
Other Expenses		$80,000
Total Operating Expenses	$8,545,029	$8,332,660
Operating Income / Earnings		
Before Interest	(4,064,602)	$(4,033,626)
Dues	$4,092,904	$4,109,839
Depreciation	$1,192,503	$1,211,825
Non-operating (income)/Expenses	$(114,073)	$22,972
Net income	$1,050,128	$(1,158,584)

Exhibit 2

Sunrise Country Club Balance Sheet
2010-2013

Cash	2013	2012	2011	2010
Accounts Receivable	$ 2,455,591	$ 2,484,339	$ 2,786,304	$ 2,711,532
Inventories	$ 1,002,929	$ 1,095,341	$ 1,207,644	$ 1,157,313
Prepaid Expenses	$ 344,715	$ 332,189	$ 291,487	$ 260,347
Other Current Assets	$ 118,428	$ 89,085	$ 112,189	$ 120,410
Total Current Assets	$ 45,784	$ 45,784	$ 45,784	$ 45,784
	$ 3,967,447	$ 4,046,738	$ 4,443,408	$ 4,295,386
Gross Plant and Equip				
Accumulated Depreciation	$ 30,690,099	$ 30,301,022	$ 29,544,539	$ 29,528,733
Net Plant and Equip	$ (12,984,843)	$ (11,927,378)	$ (10,731,707)	$ (9,876,005)
	$ 17,705,256	$ 18,373,644	$ 18,812,832	$ 19,652,728
Total Assets				
	$ 21,672,703	$ 22,420,382	$ 23,256,240	$ 23,948,114
Accounts Payable				
Accrued Expenses	$ 503,979	$ 396,753	$ 371,187	$ 516,860
Other Short-Term Liabilities	$ 502,760	$ 387,450	$ 394,114	$ 383,789
Short-Term Notes Payable	$ 515,480	$ 459,054	$ 433,620	$ 412,301
Total Current Liabilities	$ 597,164	$ 802,149	$ 618,768	$ 666,101
	$ 2,119,383	$ 2,045,407	$ 1,817,689	$ 1,979,051
Long-Term Liabilities				
Membership Deposits	$ 11,827	$ 659,160	$ 1,465,152	$ 2,157,540
Total Liabilities	$ 508,665	$ 530,365	$ 577,965	$ 686,565
	$ 2,639,875	$ 3,234,932	$ 3,860,806	$ 4,823,156
Equity				
Total Liabilities & Equity	$ 19,032,827	$ 19,185,449	$ 19,395,433	$ 19,124,957
	$ 21,672,702	$ 22,420,381	$ 23,256,239	$ 23,948,113

Exhibit 3

Sunrise Country Club
Capital Improvements, Golf Course Maintenance, and Equity Additions

2011-2013

	2013	2012	2011
Capital Improvements	$524,115	$821,440	$474,383
Equity Additions	$897,506	$915,078	$1,191,758
Golf Course Maintenance Total	$2,071,633	$2,177,913	$2,160,778
Operating Cash Flow	$471,880	$274,607	$205,718

Exhibit 4

Sunrise Country Club
Food and Beverage Sales and Cost of Goods Sold

2011-2013

	2013	2012	2011	2010
Food Revenue	$1,573,004	$1,514,610	$1,401,664	$1,254,220
Food Cost of Sales	$700,923	$650,031	$623,136	$536,873
Beverage Revenue	$579,934	$539,570	$521,229	$471,057
Beverage Cost of Sales	$211,227	$194,138	$185,906	$158,894
Food & Beverage Fixed Costs	$1,441,993	$1,360,044	$1,278,032	$1,212,491
Food & Beverage Variable Costs	$1,073,113	$973,767	$ 927,778	$ 799,234

Exhibit 5

Average Ratios
Florida Country Clubs

2013	Florida Statewide	Southwest Florida	Southeast Florida
Capital Improvement/ Depreciation	1.03	1.06	1.02
Third Party Debt per member	5,830	4,500	9,010
Total Members	780	660	940
Dues/total revenues	62.8	61.5	63.3
Sports/revenues	15.9	19.9	15.8
Food/revenues	13.7	12.3	13.2
Beverage/revenues	3.9	4.6	3.5
Other/revenues	3.7	1.7	4.2
Payroll and related/revenues	52.2	54.2	49.7
Cost of F&B/revenues	8	7	7.7
Operating expenses excluding Depreciation/revenues	35	34.9	37
Taxes and insurance/revenues	4	3.9	5.6
per member			
Dues	8,100	7,500	11,600
Sports	2,100	2,400	2,800
Food	1,800	1,500	2,400
Beverage	500	600	600
Other	500	200	800
Payroll and related	6,600	6,500	9,000
Cost of F&B	1,000	800	1,400
Operating expenses excluding depreciation	4,500	4,300	6,700
Taxes and insurance	600	500	1,000
Restaurant sales per member	2,300	2,100	3,000
Gross profit margin food	51.6	56.4	51.8
Gross profit margin beverage	67.6	66.8	65.2
Golf course maintenance per hole	76,800	82,000	73,000

Exhibit 6

Florida Country Clubs Other Industry Ratios
2013

	Florida Statewide	Florida Southwest	Florida Southeast
Current Ratio	1.8	1.85	1.75
Quick Ratio	1.5	1.35	1.42
Debt Ratio	18%	17%	16%
Debt/Equity Ratio	21.9%	20.7%	19.5%
Cash Flow to Debt Ratio	40.1%	41.6%	39.6%
Inventory Turnover	25.7	25.2	25.8
Asset Turnover	0.36	0.35	0.34
Capitalization Ratio	22.5%	17.2%	16.3%

proving? How does it compare to its peers?

- Compute the inventory turnover ratio and asset turnover ratio. How would you rate the management of its assets? How does it compare to its peers?
- Compute the debt/equity ratio, debt ratio, capitalization ratio, cash flow to debt ratio, and capital improvements / depreciation ratio. Is Sunrise becoming more or less risky? How does it compare to its peers?
- Compute the food cost percent, golf course maintenance expense, beverage cost percent, sports revenue per member, food and beverage per member, food to beverage ratio and dues per member. What is happening in cost structures? What conclusions can you draw based on those ratios? Calculate some additional ratios that you think may be helpful.
- Suggest ways to increase other operating revenues.
- Compute the breakeven point calculation. What can be done to reach breakeven for the food and beverage operations in 2013?
- Discuss the issues of a club's inventory turnover being too high or too low. What causes it to be too high or low?
- What challenges Sunrise Country Club may be facing that prevents the food and beverage department from achieving a breakeven point?
- What Sunrise Country Club should do about depreciation and capital improvements?