POA / LFCC Joint Cooperation Presentation

POA Equity Sharing Proposal

The Facts

- The Lockwood Folly golf course is the centerpiece of our community
- 70% of our homes & lots border the golf course and have golf views
- Your property values rely on the continuing operation of the Lockwood Folly golf course
- If the golf course fails, every property in our community will experience a disastrous and irretrievable plunge in value

Financial Facts

- LFCC's operating cash balances have steadily declined over the years
- Membership losses have contributed to this, going from a high of 216 to the current 163
- The economic downturn of 2008 cut outside play revenues and started a string of 3 bad financial years in a row
- In 2010 the club lost 20 members, and the down real estate market is not yielding new member opportunities
- The bad economy has driven greens fees to all time lows as courses struggle to retain cash flows

Financial Facts

- In June, LFCC's balloon loan came due and was renegotiated; the interest rate went up 3%
- BB&T also now requires LFCC to make principal payments on our line of credit loan
- LFCC's interest and principal payments have increased by about $24,000 per year
- Bottom line: LFCC's revenues are declining and expenses are increasing, which accelerates the cash loss

LFCC Financial Facts

	2010
Total Revenues 2010	**$1,200,870**
Expenses & Loan Payments	**$1,284,714**
Gain/Loss	**($83,844)**
Assets Purchased	**($18,294)**
Redemptions Paid	**($28,000)**
Total Cash Gain/Loss	**($130,138)**

Beginning Cash Jan. 2010	**$224,207**
Add $350 Assessment	**$62,500**
Cash Loss	**($130,138)**
Ending Cash Balance	**$156,569**

LFCC Financial Facts

	2011
Beginning Cash (N/I Capital Fund) 2011	$156,569
Budgeted Loss	($83,200)
YTD Performance to Budget	($45,688)
Adjusted Budget Projection for Year End Cash	$27,681
Year End Cash 2011	$27,681
Cash Flow 2011	($128,888)

LFCC Financial Facts

- $128,888 cash loss / 12 months = $10,740 per month cash burn
  - On average, LFCC is using up $10,740 of its remaining cash
- The 2011 year end cash balance is $27,681
- If LFCC burns $10,740 per month, and the 2012 beginning cash balance is $27,681, the cash balance will last $27,681 / $10,740 = 2.6 months on average
- This does not mean LFCC will run out of cash in March, because their revenues are front loaded
- What it means is that sometime in 2012, cash will be depleted

LFCC Financial Summary

- Cash Flow 2010 ($130,138)
- Projected Cash Flow 2011 ($128,888)
- Debt Service costs have increased $24,000
- LFCC loses 10 members per year on average (last 3 years)
- Beginning 2012 Expense Account Cash Balance $27,681
- Expected Cash Flow 2012 (with spending restraints)-- ($100,000 to $130,000)

LFCC will run out of cash sometime in 2012 and will not be able to make its BB&T loan payments

Losing the Golf Course Put in Perspective---

- Assume that on average, each of Lockwood's 318 homes is worth $350K
  - 318 times $350,000 is $111,300,000
- Assume that on average, each of Lockwood's 296 undeveloped lots is worth $40K
  - 296 times $40,000 is $11,840,000
- Lockwood Folly's total combined property value is around $123,000,000
- If the golf course closes and our property values drop by an estimated 30%, we lose a collective $37,000,000
- You can use any estimate of the impact on property values, but by any devaluation estimate, the total loss to our community will be enormous

How Can We Save LFGC?

- Why doesn't the LFCC board assess LFCC members to keep the golf course open?
  - They are paying assessments, but with membership declining every year, each member would have to pay $700-$1000 more per year to make up the losses at the current member level
  - Each time membership costs go up, more members drop out
  - With the depressed real estate market, potential golfers are not moving to Lockwood Folly
  - Competition has driven greens fees so low that it will soon cost more to play Lockwood as a member than to play other area courses as a walk on
  - If LFCC passes assessments and more members drop out, soon the costs to belong will be prohibitive for the remaining LFCC members
  - So, new LFCC assessments may delay failure for a few months, but inevitably, we will still lose the golf course to the bank

How Can We Save LFGC?

- Why doesn't LFCC sell the golf course?
  - First of all, Myrtle Beach golf courses in bankruptcy are a dime a dozen
  - Our location makes recruiting players more difficult than courses closer to Myrtle Beach or Wilmington, so there will be less interest from prospective buyers
  - It is likely that LFCC will default on its loan obligations before a buyer can be found
  - If the golf course defaults and BB&T closes it, there is no telling when, or if, a buyer can be found
  - If control of the golf course falls to an outside buyer, there will be some level of community disruption resulting from a fully public golf course
  - It is clearly more advantageous for our Lockwood community to control the golf course

How Can We Save LFGC?

Therefore:

- The POA acknowledges we cannot afford to see the golf course closed or owned by an outsider
- For the last several months we have been working with LFCC on a plan to save the golf course
- Unlike other buyout plans that have been proposed in the past, this plan is an equity sharing plan that overcomes the financial obstacles posed in previous proposals

The Basic POA Plan

- The POA agrees to purchase a 50% equity share of the golf course by paying LFCC an annual amount equal to its loan obligations
- The POA is not assuming LFCC's loan obligations
- The POA will not be a signee, co-signee or a guarantor of any LFCC note
- The POA will not remit loan payments to BB&T
- All loans will remain a liability of LFCC
- The POA will write a check monthly to LFCC in the amount of the principal and interest due on LFCC loans as payment for its equity purchase

The Basic POA Plan

- LFCC can only use these funds to make loan payments
  - This guarantees that BB&T will not foreclose on our golf course and close it
  - It ensures survival of LFGC until real estate sales improve and golf memberships return to normal levels
  - It allows LFCC to focus on strategies to generate revenues rather than how to make their loan payments
  - *It does not guarantee LFCC profitability; but it gives LFCC time to focus on making the golf course self-supporting*

Plan Fundamentals

- ***There will be no POA special assessments or dues increases to cover these costs***
- When the POA becomes a 50% equity owner, LFCC's dues will be reduced by 50%
- Loan principal & interest payments are estimated per the following the table:

Years 1 – 5	$130,000 per year
Years 6 – 10	$86,000 per year
Years 11 – 15	$30,000 per year
Year 16	Pay off balance $121,000

Put in Perspective--

- Adding up the payments, the POA will invest about $1.35M over 15 years to guarantee the golf course stays open and remains a community asset

- How much would you invest to save $36,000,000?

- Your board believes that investing $1.35M in our community to save an astounding loss of property value is a wise decision

Plan Fundamentals

- In years 1 - 10 loan payments are the only cash contribution that the POA will make to LFCC
  - The POA will make no payments to LFCC for operating expense; LFCC must use golf revenues to cover these costs
  - The POA will make no payments to LFCC for capital improvements during the first 10 years of this agreement
  - The purpose of this plan is not to subsidize golf course operations
  - ***The purpose of this plan is to guarantee that BB&T does not take over and close the golf course***

What Does the POA Get in Return?

- The POA will receive its 50% equity share up front when the agreement is signed
- This means that every equity owner share is reduced by 50% the date of the agreement
- The POA share will remain at 50% for 10 years
- New classes of votes will be established which grant the POA 50% of votes involving any major financial decisions
- The POA will have 1 vote in LFCC board elections, same as any single equity owner

Plan Fundamentals

- When the POA is granted 50% equity, the golf course becomes a Lockwood Folly amenity available to all property owners
  - This means that every POA member will become a course member with play privileges
  - You will be able to play the golf course at rates lower, on average, than the local county resident rate
  - Like any LFCC member, you are granted free range balls and may participate in certain LFCC functions or events
  - Like any LFCC member, you are eligible for any pro shop or special offer discounts
  - Course membership is a grant provided by your POA membership and transfers to any subsequent property owner

Plan Fundamentals

- POA membership does not convey full LFCC membership
  - You will not have an individual equity stake in LFCC
  - You are not required to pay LFCC dues and assessments
  - You will not have individual LFCC voting rights
  - You will not be eligible to serve on the LFCC board of directors
  - You will not be eligible to purchase a full play golf package unless you upgrade to a full LFCC membership
  - Your membership status allows you to play the golf course at a reduced rate and use the practice range at no charge

Plan Fundamentals

- You may upgrade your POA course membership status
  - You can convert to a non-equity full LFCC membership at no cost
    - This allows you to purchase full play packages, which offer savings to frequent golfers
    - You will assume the obligation of paying LFCC annual dues
    - You will assume the obligation of paying the $30 monthly food and beverage minimum as long as it is required
    - You will be eligible to vote on LFCC issues and serve on the LFCC board of directors
- Equity memberships will no longer be offered by LFCC

Operational Changes

- The basic management structure of the club will not change:
  - Day to day golf operations will continue as they are
  - The LFCC board will continue to oversee golf operations
  - The LFCC board will continue to be responsible for the financial performance of the golf course

Operational Changes

- A new 6 person oversight board of directors will be formed, composed of the presidents, vice presidents and treasurers of the POA and LFCC
- This oversight board will function much like that of a publicly held company’s board of directors
- It will be responsible for reviewing and approving strategic and financial club decisions:
  - Formation of an initial strategic and long range cash flow plan
  - Budgets
  - New borrowing
  - Capital projects
  - Revenue Plan
  - Strategy decisions that have financial impact
  - Policies that impact the community
- The oversight board may review and amend any LFCC board decision it deems not in the community best interests

Operational Changes

- Since the representation of the new board is 50% POA and 50% LFCC, each party has equal say in key decisions
- This means that if disagreements arise, a compromise solution must be worked out that is agreeable to both parties before any action is taken
- It guarantees that POA member benefits cannot be changed without POA board permission
- It guarantees that POA members retain the right to play the golf course for rates below the posted local rate

Additional LFCC Changes

- Additionally, management of golf operations will change
  - A position of managing director will be added as an ad hoc board position
  - The managing director will have full board status and be responsible for golf operations (but not grounds & greens)
- This change guarantees managerial continuity and competency regardless of LFCC/POA board turnover

Additional LFCC Changes

- LFCC's by-laws will be changed to require the LFCC board to submit an *annual zero (or better) net cash flow* budget
- Only the 6 person oversight board may approve a budget with negative cash flow
- Any budget overspending proposals will be approved by the 6 person oversight board
- Any expected budget shortfalls will be minimized by an equivalent operating cost reduction plan
- If future losses are absolutely unavoidable, the 6 person oversight board will be required to propose a recovery plan

Additional Changes

- LFCC will develop a long term business model
- The model will project cash flows that satisfy the net zero (or better) cash flow budget mandate:
  - It must project as accurately as possible future outside and resident play revenues
  - It must accurately project membership level and dues revenues subsequent to approval of this proposal
  - With member play revenues the final revenue component, it must propose a new member package play strategy, with accompanying rates, that complete the revenue picture
  - It must identify necessary capital projects
- The model will project cash flows for at least 5 years
- The model will serve to establish LFCC's financial goals
- The model will allow testing of various strategies for maximizing revenues and costs

Additional LFCC Changes

- After 10 years, the agreement enters another phase
- The POA will continue making loan contributions until they are paid off in year 16
- Starting in year 11 the POA will fund LFCC capital expenses approved by the oversight board
- During years 11 – 20, the POA will accumulate an additional 5% equity per year and LFCC dues will decrease by 5% per year
- In year 20 when the POA has accumulated 100% equity, it will pay each equity member (in good standing) of record at the time of signing the agreement plus 2 years of active package membership (in good standing) 20% of his/her original equity investment

New Projected Cash Flows

- LFCC would be expected to deplete cash by about $120K cash in 2012, which includes $130K loan interest and principal payments before the merger
- The POA reduces LFCC's cash outflow by $130K in years 1 – 5
- LFCC effectively becomes a break even (or better) operation when the POA begins making payments
- The 50% reduction in LFCC's dues granted by the POA generates "profits" of roughly $35K
- The new business model will document more accurately this rough estimate

New Projected Cash Flows

Expected maximum LFCC	
cash flow loss 2012 ----------------------------------	$-120,000
LFCC revenue from POA	
Equity Purchase --	$130,000
POA dues reduction ----------------------------------	$ 25,000
Expected 2012 LFCC cash flow ----------------	$ 35,000

Conclusion – POA costs for the LFCC agreement are as communicated; the POA will not cover any additional LFCC losses, as there should be none

Other Benefits

- We all know that some former LFCC members and non-golfing POA members have had issues and/or disagreements with LFCC policies in the past
- The LFCC board of directors acknowledges these problems and agrees that now is the time for a new start
- To promote a “fresh start” POA/LFCC relationship, every POA member will receive a one time grant of 5 free golf rounds for each property they own, fully transferrable to family or friends, with no expiration date.

Other Benefits

- If you have your property for sale, a course membership to LFCC will help you find a buyer
- If you are a non-LFCC member lot owner who plays occasionally at Lockwood, your membership allows you to play at very competitive rates
- If you are a non-golfing resident, you can rest assured that your property value will not be destroyed by a failed golf course

Summary

- The current golf market climate virtually guarantees LFCC will soon run out of cash and default on its loan obligations
- The purpose of the POA's loan guarantee is to preserve Lockwood's most prized asset and protect your property values
- In return, the POA will become a 50% owner of the golf course initially, then a 100% owner
- The golf course will immediately become an amenity available to all POA members at bargain prices
- *It will not affect your POA dues; there are no assessments*
- If you sell your property, golf membership is an added benefit to prospective buyers
- Long term, when the housing market and economy turn around, LFCC loans are paid off and the golf course becomes profitable, the profits will accrue to the POA

POA Costs Explained

- The loan payoff amount is expected to be about $1.35M over 15 years—the present value of that amount is $1M
- The capital requirements beginning in year 11 are not known, but should not be large with a new community center, new septic and new parking lot
- We expect the economy to be in recovery by year 10, and the golf course will pay for itself or generate profits for the POA
- Bottom line, this investment long term is expected to be self supporting and even generating returns which will ultimately lower our POA costs