

Minutes - KTC Executive Meeting
July 25, 2018 @ 7:00pm
Queen's ARC

In attendance: Viki Andrevska, Mike Bartlett, Doug Bowie, Bob Goddard, Paula Loh, Taco Meuter, Nerissa Mulligan, Bud Nelson, David Stocks, Gill Turnbull, Chloe Wilson

Absent: None

[Claire Tremblay resigned from the Board due to work commitments]

1. Review/approve minutes of meeting from June 20, 2018

Taco moved, Mike seconded to approve the minutes. Carried.

2. Hiring/Staffing update

Chloe will do some research to make sure we are in line with our policies regarding safety. Allie, Jack and Max will be our stewards for the rest of the season.

3. Membership update

Discussion was developed about reducing the rate in August. Board agreed not to reduce the rates for August.

4. Fundraising Committee update

A member suggested to organize a fundraising social event in September. Gill and Viki to meet and discuss the details and propose a lineup of the events at the next board meeting.

5. Operating Manual Committee update

Bud has sent out to the board the old manual. The board agreed that we should come up with the skeleton of the operating manual and then add the details. Furthermore it was suggested that the details should be added as they are happening. Bud will send an email. The due line in two weeks.

6. Treasurer's Report – Appendix A

Motion: Gill moved, David seconded to accept the treasurer's report as part of the minutes. Carried.

7. Club maintenance update

Doug will check the condition of the roof. There are nails on the newly painted courts. Doug will look into this. Paula will send an email to Chris.

8. Finance committee update – Appendix B

- a. Revised version of June 25th report distributed in advance of meeting to be discussed.

The finance committee report is included in the minutes. Some items in the financial report needed clarification. Further information and discussion is necessary for consensus to be reached. .

9. Garbage pails on courts (Gill)

- a. Members have asked about having more accessible garbage cans around the property, particularly at the back courts. Should we purchase some?

In the newsletter, a reminder to the members to clean up the back courts and use the recycling bin should be included.

10. Warm-up bikes on deck (Chloe)

- a. Members have asked about the possibility of having one or two stationary bikes available on the property for warm-up. With only an hour to play, and limited space, having equipment available would be helpful. Is this something we should consider for next season or as part of the capital project?

The proposal was discussed and the board agreed that at this point would not accept having one or two stationary bikes available on the property. A couple of worries were raised such as risk for the kids, work involved with bringing them in and out every day, etc.

11. Slack (Nerissa)

The board agreed that the decision would be made after Nerissa makes a Slack presentation.

12. August 1 Reduced Membership Rate (Bud)

- a. Do we want to have a reduced rate for the 2nd half of the season this year?

The board agreed to have a reduced rate for September.

13. Capital Project Committee update

We received the City's Pre-Application Report for the meeting held on June 19, 2018. They made requests that the club provide: stormwater management brief/report; tree inventory; noise impact study; one accessible parking space; court lighting that is downward to avoid light spillage.

The planned location of a rebuilt hitting wall on Court 7 meets zoning requirements. The Engineering Department suggests a connection to the sewer on Hill Street (or Earl Street) for sub-drainage. Doug Prinsen will work on reconciling the issues of noise and parking before advancing the site drawing or having us commission a tree inventory.

2018 Trillium Grant – Bill Anglin is unavailable to work on our capital project until early September due to prior commitments. Doug Prinsen will source two quotes from general contractors to rebuild Courts 2 & 3 and install lighting for the purpose of the grant application.

The CP committee began reviewing the one-storey clubhouse design and the option of including a basement. Discussed potential timing of late-September to finalize clubhouse design and present to membership and launch fundraising.

Mike asked if the Capital Project Committee could draft a plan for the rest of the board for the project detailing the items that we know are coming up regarding the capital project. For example, listing expenses that we know are coming up, such as: building permit, design fees, civil engineering fees, geotech fees etc.... with the understanding that as we keep exploring new things, some of those items, and their associated costs may change.

Doug Prinsen estimates \$12,500 for civil engineering fees to take us to site plan approval. This includes an allowance for dealing with the City on items such as connecting to the sewer on Hill Street/noise study/parking space.

Motion, Paula moved and Bud seconded to approve the civil engineering cost of \$12,500. Carried. Mike and Taco opposed.

A Geo Tech study was quoted and budgeted in 2015 at a cost of \$6,200. The study provides information on bedrock, groundwater, soil, court granular base, and court concrete info which is valuable in helping with design efficiency and removing contractor guesswork regarding costs. Paula will update the quote and circulate the revised cost to the board for an email vote.

14. Other business

Dave and Chloe will be meeting with the consulting firm handling the city of Kingston Recreation Master Plan. They want to meet with stakeholders as part of their survey of sports within the City. More information will be provided after the meeting.

15. Set next meeting Date: Proposed date Wed, August 29th, 7pm

16. Adjournment at 10:06pm

Appendix A

Treasurer's Report July 25, 2018

Operating Budget (Statements on pages 4-7.)

Up to Date Info:

2018 Collection of **Revenues** (Jan 1-July 23): \$210,595 (2017: \$218,332). Revenues are down mainly because of lower full time camp revenues, and lesson revenues. Interestingly, despite automation and increased division of work, over 90% of the revenues involved transactions that were still directly processed by the treasurer.

Cash Position: As of July 23: RBC: \$13,286 (June 20: \$13,910); Tangerine: \$92,444 (\$205,261); DS: \$390,265 (\$300,206)

Member #'s: Total 470: Adult 171, Student&Jr 27, Couple 132, Family 140. New Membership Revenues to July 23 are \$114,189 (on track to meet the budget: \$119,500; same date 2017: \$113,182).

Camps (completed registrations):

	Today	Last month	Two months ago
Week 1	F22MFA7	F24 M14 A8	F17 M16 A3;
Week 2	F23MFA8	F19 MF A9	F15 MFull A4;
Week 3	FFMFA8	F23 MF A6	F19 MFull A3;
Week 4	F20MFA5	F15 MF A4	F13 M13 A2;
Week 5	F11MFA8	F7 MF A8	F6 M14 A 9;
Week 6	F20MFA3	F14 MF A1	F8 M12 A1;
Week 7	F11M15A3	F9 M15 A2	F7 M12 A2;
Week 8	F15MFA4	F13 M14 A2	F11 M 10 A2;
Week 9	F7M11A3	F7 M6 A0	F5 M5 A0;

(Maximum spots: Full 24, Morning 16, Afternoon 16.)

At the end of April camp revenues were \$34,500 (2017: \$38,500). On May 18 those numbers were \$43,700 and \$50,400. On June 19 they were \$57,917 and \$56,395; on July 23 that becomes \$65,286 and \$71,281, respectively. In contrast to last month,

we are now again behind last year, mainly because of fewer full time camps sold in the past month compared to the year before. Some weeks (esp. 5, 7, 9) remain consistently undersold for some or all of the camp sessions, and afternoon sessions are still almost uniformly undersold, despite their lower cost. In a previous annual report I suggested reducing the number of afternoon sessions (e.g., to every other week) – that may be the solution.

Revenue from lessons lag last year's: \$13,527 vs \$19,574.

Investment

Following last month's recommendation to the board, a further \$90,000 was invested in a GIC at 2.3% maturing June 25, 2019.

Differential payment methods

Following up on the discussion at the last meeting regarding credit card and other online payment methods, we can add this info:

1. Merchants are indeed permitted to offer discounts for different methods of payments. Any discounts must be clearly marked at the point-of-sale.
<https://www.canada.ca/en/financial-consumer-agency/services/industry/laws-regulations/credit-debit-code-conduct.html>
2. In addition, Merchants are able to offer interac online for direct payment from customers. <https://interac.ca/en/interac-online-merchant.html>

Acquirer service fee Acquirers pay a flat-fee to Interac Corp. for each completed transaction based on the customers purchase amount and merchant sector. The fee charged to Acquirers is a wholesale rate.

Interac Online service fees to Acquirer (such as Moneris): less
than \$15: acquirer pays \$0.115
\$15-\$35: acquirer pays \$0.265 over
\$35: acquirer pays \$0.465

Acquirer processing fee Online merchants pay a processing fee as set by their Acquirer or payment service provider. This fee varies depending on individual contracts that merchants have with the Acquirer or the payment service provider that connects them to the *Interac* Online service, and the fee may include costs related to other services. \$50 setup fee plus \$0.15 moneris transaction fee plus variable bank processing fee. A small inconvenience to the customer: customer is directed to his bank site to do the transaction, and then redirected back to the KTC website. This is slow, but still one continuous and complete transaction.

IO is accepted by scores of Cdn financial institutions including BNS, RBC and TD

<http://interac.ca/en/interac-online-consumer.html>

So, whatever online club management system that we adopt next year, we will again be able to accept credit cards (at the highest, so-called "base" rate). We will also be able to offer Interac Online at a lower, discounted rate (hopefully low enough to gather most membership and camp payments), as well as cheques (at the lowest discounted rate, our real EB rate). When the cheque option is chosen, the system must send an email to the customer that they will need to print and mail with the cheque.

Depending on Interac Online cost, we could charge the same rate as for cheques (since cheques do involve lots of admin time)

E-transfers: I would not recommend using these again - far too cumbersome.

Finance Committee

Over the past month the Finance Committee has held vigorous discussions primarily to determine a level of debt that will not put the club at risk of default over the 25-year duration of such debt, given KTC's known operational and financial variables as well as the uncertain competitive environment facing us over the same period.

Kingston Tennis Club					
2018 OPERATING BUDGET					
		YTD Actual	2018 Budget	2017 Actual	2016 Actual
		Oct-Jun 2018			
MEMBERS & GENERAL REVENUES					
Fees		113,570	119,500	117,841	121,229
Lessons - net		8,227	7,000	7,858	7,609
Guest fees		660	3,300	3,610	3,023
Donations		3,024	2,200	2,956	1,603
Clubhouse Sales - net		(1,155)	300	(98)	1,032
Socials and Tournaments - net		1,870	200	68	198
Parking revenue - net		(36)	0	(304)	296
HST		(7,031)	(12,000)	(11,697)	(12,289)
CONTRIBUTION, MEMBERS & GENERAL		119,129	120,500	120,234	122,701
JUNIOR CAMPS					
Revenue		58,268	85,900	84,980	79,774
Supplies		0	(5,200)	(3,519)	(6,379)
Try, Learn, Play (2017 Wages)		0			
Wages		0	(40,100)	(32,575)	(32,419)
CONTRIBUTION, JUNIOR CAMPS		58,268	40,600	48,887	40,976
SHARED COSTS					
Advertising		(178)	(700)	(865)	(545)
Amortization		0	(2,900)	(2,515)	(2,763)
Bank Charges		(1,054)	(1,300)	(1,296)	(6,096)
Bookkeeper		(3,075)	(5,100)	(4,425)	0
Insurance		(1,398)	(1,800)	(2,024)	(2,264)
Interest Income		4,193	4,800	3,596	1,066
Office Supplies		(1,052)	(1,500)	(1,304)	(1,938)
OTA Fees		(1,545)	(1,500)	(1,545)	(1,545)
Professional Fees		(3,310)	(3,500)	(3,192)	(5,180)
Property Tax		(15,905)	(12,400)	(11,542)	(9,716)
Repairs & Maintenance		(3,881)	(5,000)	(4,491)	(11,418)
Software expense		(973)	(4,300)	(4,047)	(4,521)
Steward Wages		(11,170)	(27,400)	(28,021)	(29,153)
Transportation		(226)	(200)	(188)	(223)
Utilities & Communication		(2,190)	(4,200)	(4,214)	(4,051)
TOTAL, SHARED COSTS		(41,765)	(67,000)	(66,072)	(78,347)
REVENUE less EXPENDITURES - RECURRING		135,632	94,100	103,049	85,330
HST Recovery - non recurring		0	0	0	32,097
REVENUE less EXPENDITURES		135,632	94,100	103,049	117,427
ADD: Amortization		0	2,900	2,515	2,763
EBITDA		135,632	97,000	105,564	120,190
LESS: Capital Spending		(4,374)	(15,300)		(14,573)
Increase in Working Capital		(6,353)	0		(5,523)
Cash Flow after Working Capital Changes		124,905	81,700	105,564	100,094
CASH:					
Beginning, Total cash and cash equivalents		389,073	389,073	283,509	183,392

Ending, Total cash and cash equivalents	513,978	470,773	389,073	283,509
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Capital Spending		
Bathroom Renovation		
Wayne Patry - bathroom repairs - May 2018		671
	New Building	
Forefront Engineering - Oct 2017		1,288
Wayne Patry - water fountain - May 2018		840
		2,128
	Court 1	
Oosterhoff Electrical - Nov 2017		1,575
		4,374

Kingston Tennis Club

Profit and Loss

October 2017 - June 2018

	Total	
	Oct 2017 - Jun 2018	Oct 2016 - Jun 2017 (PY)
INCOME		
5010 Donations		
5010-02 Donations from Memberships	3,024.00	2,936.00
Total 5010 Donations	\$ 3,024.00	\$ 2,936.00
5020 Guest Fees		105.00
5020-01 Court Rental	375.00	610.00
5020-04 Ball Machine Rental	285.00	105.00
Total 5020 Guest Fees	\$ 660.00	\$ 820.00
5030 Interest Income	4,192.50	2,171.36
5040 Junior Camp		
5040-01 Full Day Camp	29,870.00	35,305.00
5040-03 Half Day Tennis Camp	550.00	27,505.00
5040-20 Morning Tennis Camp	22,133.00	
5040-21 Afternoon Tennis Camp	4,990.00	
Total 5040-03 Half Day Tennis Camp	\$ 27,673.00	\$ 27,505.00
5040-05 Supervision		1,345.00
5040-50 AM Supervision	470.00	
5040-51 PM Supervision	255.00	
Total 5040-05 Supervision	\$ 725.00	\$ 1,345.00
Total 5040 Junior Camp	\$ 58,268.00	\$ 64,155.00
5060 Lessons		
5060-01 Group	3,088.00	7,020.00
5060-02 Private / Semi-private	2,539.00	4,560.00
5060-20 Lesson Private/Semi A	368.33	
Total 5060-02 Private / Semi-private	\$ 2,907.33	\$ 4,560.00
5060-04 Junior Group Lessons	4,800.00	3,700.00
5060-05 Shot of the Week	375.00	0.00
Total 5060 Lessons	\$ 11,170.33	\$ 15,280.00
5061 Lesson Re-imburement		
5061-01 Group	-123.33	-140.00
Total 5061 Lesson Re-imburement	-\$ 123.33	-\$ 140.00
5070 Membership Dues		
5070-01 Adult Membership	55,197.00	54,477.00
5070-02 Couples Membership	32,425.00	33,847.00
5070-03 Family Membership	20,355.00	19,305.00
5070-04 Junior Membership	1,477.00	1,218.00
5070-05 Student Membership	4,116.00	4,484.00
Total 5070 Membership Dues	\$ 113,570.00	\$ 113,331.00
5090 Sales		
5090-02 Drinks	138.00	116.00
5090-03 Food	23.75	75.75
5090-04 Tennis Balls		1,093.00
5090-40 Tennis Balls NEW	2,087.00	
5090-41 Tennis Balls USED		2.00
Total 5090-04 Tennis Balls	\$ 2,089.00	\$ 1,093.00
5090-06 Parking revenue	2,050.00	2,225.00
Total 5090 Sales	\$ 4,300.75	\$ 3,509.75
5095 Misc revenue		77.00
5100 Social Events	477.00	520.00
5100-01 Rogers Cup	1,125.00	105.70
Total 5100 Social Events	\$ 1,602.00	\$ 625.70
5110 Tournaments	1,120.00	2,154.00
5150 Uncategorized Income - Unreconciled Deposits		941.20
5150-01 Uncategorized Income - Cheque Deposits		219.89
5150-02 Uncategorized Income - E-transfer Deposits		-768.20
5150-03 Uncategorized Income - POS Debit Deposits		0.00
5150-04 Uncategorized Income - POS Credit Card Deposits		0.00
5150-05 Uncategorized Income - Cash Deposits	0.00	0.00
Total 5150 Uncategorized Income - Unreconciled Deposits	\$ 0.00	\$ 392.89
Total Income	\$ 197,784.25	\$ 205,312.70

GROSS PROFIT	\$ 197,784.25	\$ 205,312.70
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EXPENSES		
7000 Advertising/Publicity	177.96	537.37
7020 Canteen Expenses		
7020-01 Drinks	81.58	
7020-02 Food	27.67	
7020-04 Tennis Balls Purchased - Canteen	3,037.44	4,455.97
7020-05 Clothing	259.54	
Total 7020 Canteen Expenses	\$ 3,406.23	\$ 4,455.97
7040 Insurance	1,398.47	1,560.18
7050 HST/GST Expense	7,030.78	6,306.14
7065 Court Supplies - Teaching	338.89	
7090 Office Supplies	722.81	797.46
7094 Bookkeeping	3,075.00	2,700.00
7095 Legal and Accounting	2,825.00	791.85
7100 OTA Fees	1,545.00	1,545.00
7105 Parking expenses	2,085.85	2,628.83
7110 Property Tax	15,904.86	12,109.20
7120 Repairs & Maintenance	3,881.08	2,815.11
7125 Infrastructure Project	485.00	
7130 Social Expenses		50.00
7130-01 Socials	823.27	1,531.83
Total 7130 Social Expenses	\$ 823.27	\$ 1,581.83
7140 Telephone	874.95	643.08
7160 Tournament Expenses	28.61	
7170 Utilities	1,314.79	2,164.76
7190 Transportation	226.10	187.54
7200 Payroll Expenses		89.11
7200-02 Stew ards	11,169.94	11,535.80
7200-03 Tennis Pro Retainer	2,820.00	4,890.00
Taxes		0.00
Wages		0.00
Total 7200 Payroll Expenses	\$ 13,989.94	\$ 16,514.91
7500 Bank Charges	1,011.57	890.81
7505 Computer and Software expense	972.99	3,199.26
7520 Credit Card Charges	42.87	146.42
Total Expenses	\$ 62,162.02	\$ 61,575.72
OTHER EXPENSES		
7900 Over/Short	-10.00	13.55
Reconciliation Discrepancies-1		0.00
Total Other Expenses	-\$ 10.00	\$ 13.55
PROFIT	\$ 135,632.23	\$ 143,723.43

Appendix B

FINANCE COMMITTEE REPORT TO KTC BOARD

In accordance with its Terms of Reference the Finance Committee has prepared the following report for approval by the board.

RESERVE FUNDS:

OPERATING RESERVE:

While the goal of a non-profit club is not to make money, it is important to have sufficient liquidity for operations as well as to meet unexpected expenses and/or have resources available to allow the club to adjust to adverse circumstances – i.e. a downturn in memberships etc.

We recommend that the club establish an operating reserve in the amount of \$100,000 which represents approximately one year's cash flow before capital expenses/repairs and debt servicing. Furthermore we recommend that this reserve be increased by 2% per year to keep up with inflation.

CAPITAL RESERVE:

The purpose of the capital reserve is to ensure that funds are available for ongoing maintenance and capital expenditures.

Courts are expected to require resurfacing every 25 years and repainting every seven years. Based on the club's history this amounts to \$350,000 (in current dollars) over 25 years for seven courts. This works out to \$2,000 per court per year – i.e. \$14,000 for seven courts or \$16,000 for eight courts.

A rule of thumb for durable assets such as buildings, lights and fences is that reserves should be set aside in the amount of 1% of their replacement value. Assuming a value of \$1M for the total value of facilities other than courts – this would amount to an additional \$10,000 per year.

We recommend that a capital reserve be established in the amount of \$24,000 per year (to be increased by 2% per year to allow for inflation) for a seven court facility.

INVESTMENT POLICY

We have discussed investment policy and determined that capital preservation is the primary investment goal, and as a result investments will be limited to high interest savings and Guaranteed Investment Certificates.

We also recognize that there is a tradeoff between the liquidity that is offered by a savings account and the higher interest rates that may be realized by locking in funds for a longer period of time.

We recommend that the Treasurer be authorized to invest the funds as he/she sees fit in either high interest savings or one to five year GICs. The Treasurer will make these decisions by balancing the need for liquidity against the opportunity to earn a higher rate of interest.

CAPITAL PROJECT – BORROWING CAPACITY

The committee recognizes that there is a separate capital project committee working on proposals for various possibilities for a capital project. Our purpose was to determine how much the club could borrow for this project, while ensuring the ongoing sustainability of the club.

There are two conditions established by Infrastructure Ontario, the most likely lender, that the KTC would need to meet.

DEBT TO EQUITY RATIO:

The first condition is that debt should not exceed 60% of the value of the assets (see also the addendum).

Our projected usable surplus at the end of 2018 is approximately \$346,000 after allowing for the \$100,000 operating reserve and a \$24,000 capital reserve. This is assuming that no extra maintenance is authorized in the meantime, other than the planned painting of courts four, five and six.

This would imply a maximum capital expenditure of \$865,000 - \$346,000 of equity and \$519,000 of debt. While 40% is the minimum equity component of any capital project, we recommend that the club require a minimum of 50% equity in any capital project undertaken. This would imply a maximum debt in the range of \$350,000.

(In 2019 our usable surplus would increase by up to \$68,000 (\$94,000 estimated 2019 surplus less adjustments for 2019 capital and operating reserves), increasing the maximum debt by up to \$34,000.)

DEBT SERVICE COVERAGE RATIO > 1.3

This requirement says that the annual cash flow must exceed the debt service requirements by 30%. Calculating this is a little more difficult because it depends both on unknown future cash flows and additional expenses that will be added to overhead as a result of the project.

Examples of additional expenses would be:

- Municipal taxes
- Utilities
- Increase in wages (part of this is the expected increase in the minimum wage which does increase costs although it is not related to the capital project)
- Insurance costs
- Loss of interest on current capital balance

In the 2017 Annual Report, then-Treasurer Jim Martin made adjustments to the 3-year average EBITDA in order to come up with a projected sustainable cashflow. The adjustments reflect changes that are due to the project as well as some that are not associated with a project.

The adjustments made by Jim are shown here. A sustainable cashflow of 74.1K was estimated, and this was used as the basis for the calculation showing that the club could take on a max debt of 900K, and the suggestion that it take on a debt of 700K.

Recurring 3-year EBIDTA:	\$ 97,200
Less regularly scheduled P-tax increase	\$ (2,700)
Less P-tax increase on 1.2M project	\$ (16,800)
Less lost interest income due to spending cash	\$ (2,600)
Less insurance Premiums	\$ (1,000)
Adjusted EBITDA presented at AGM	\$ 74,100

The Finance Committee believes that further adjustments are required, based on the following rationale:

1. No capital reserves have been accounted for in the recurring cash flow calculation.

Using the average of the previous 3 years' EBITDA – a timeframe during which no money was spent on maintaining our facilities – and not adjusting for this in the projected recurring cashflow calculation - gives a projected cashflow that is artificially high.

As discussed above, the Finance Committee recommends we set aside a \$24K annual capital reserve, growing at 2%.

2. The club has been affected by a 20% jump in minimum wages in 2018, with a further 7% increase currently slated for 2019.

The new minimum wage increases our wage expense approximately \$7K annually (and, as it stands now, \$4K more in 2019 and beyond).

3. The property tax increase estimated in 2017 was on a \$1.2M project. The project value is now conservatively estimated at \$1.5M in 2019 (based on the estimate presented at the AGM, inflation, and omissions in the estimate, such as the cost of drainage under the courts,

removing designated substances during clubhouse demolition, and rebuilding the hitting wall). Jim Martin estimated the property tax increase at \$16.8K on a \$1.2M project. The Finance Committee recommends it be projected at \$20K on a \$1.5M project.

Finance Committee – Adjustments to the \$97.2K EBITDA for a projected recurring cashflow

The following table shows the adjustments to the \$97.2K EBITDA made both in the 2017 Annual Report, and by the Finance Committee. The rationale for the changes is discussed above. The result of the further adjustments to the EBITDA by the Finance Committee is a projected sustainable cash flow of \$35.4K. This is the cashflow that should be used to determine the debt we can comfortably take on.

	<u>2017 Annual Report</u>	<u>Finance Committee</u>
Recurring 3-year EBITDA:	\$ 97,200	\$ 97,200
Less regularly scheduled P-tax increase	\$ (2,700)	\$ (2,700)
Less P-tax increase (after project)	\$ (16,800)	\$ (20,000)
Less lost interest income due to spending cash	\$ (2,600)	\$ (2,600)
Less insurance Premiums	\$ (1,000)	\$ (1,000)
Less Increase in wage expenses (due to min wage increase)	\$ -	\$ (11,500)
Less reasonable ongoing maintenance	\$ -	\$ (24,000)
Projected Sustainable Cashflow	\$ 74,100	\$ 35,400

Max Debt Based on \$35.4K Sustainable Cash Flow and a minimum coverage ratio of 1.3

The maximum debt load can be calculated with the following inputs: the interest rate, the term of the loan (years), and the debt service coverage ratio.

The following table shows the maximum loan assuming \$35.4K in sustainable cash flow, 3.89% interest, a 25 year loan term and a coverage ratio of 1.3. The required annual debt payments and the annual buffer (recurring cash flow less debt payments) are also shown.

Duration (years)	25
Rate	3.89%
\$ available	\$ 35,400
Coverage ratio	1.3
Debt servicing payments	\$ 27,231
Max Loan	\$430,391
Annual Buffer	\$ 8,169

If the club is required to have 30% left over after debt service this would allow an amount of about \$27,200 for debt service.

Using an interest rate of 3.89% the annual cash outlay of borrowing based on a 25 year amortization is about \$6,300 per \$100,000.

This would imply a maximum loan of \$430,000.

These calculations assume that

- a) Staffing is maintained at current levels, although this is increasingly untenable. If for example a club manager were hired, additional steward hours were considered necessary, or a cleaning service hired – the sustainable cash flow would be further reduced;
- b) An eighth court is not built – if an 8th court is built, capital reserves would have to be increased and the sustainable cash flow would be further reduced (2K annually);
- c) All existing courts continue to be playable;
- d) The slated further increase in minimum wage in 2019 will happen as legislated;
- e) We incur no increase in utilities costs;
- f) Monies for project costs not covered by savings or borrowing are donated.

Is This More Conservative than Jim Martin’s Suggestion in the 2017 Annual Report?

Recall that in the 2017 Annual Report, Jim Martin suggested we maintain an annual buffer of \$31.7K (on a 700K loan), “which is available for capital assets not covered by the major project, working capital and other adverse cash flow items.”

The Finance Committee is recommending we specify 24K in capital reserves, and have a buffer of \$8.2K, or in other words the Finance Committee is recommending we maintain \$24K + \$8.2K = \$32.2K to cover the items that Jim mentioned.

The Finance Committee is essentially making the same recommendation as Jim Martin – maintaining ~\$32-34K to maintain our courts and property and cover unexpected obstacles. The difference in the maximum loan recommendation (\$700K for Jim, \$430K for the Finance Committee) comes from the other adjustments to cash flow made by the Finance Committee,

which are the increases in minimum wage and the increase in property tax due to a more expensive project.

RECOMMENDATION:

The above calculations suggest a maximum debt for any capital project of \$350,000 (debt to equity ratio method) to \$430,000 (debt service coverage ratio > 1.3 method). Taking both these figures into account, the committee recommends that the maximum debt be set at \$400,000.

ADDENDUM LENDER'S RISK VS. BORROWER'S

RISK:

In any financing situation the ideal outcome is that payments of interest and principal are made on time and as scheduled until the loan is finally paid off.

As we know, things can and do go wrong, and to protect themselves lenders require security and protection to ensure they will not lose money in the event that the borrower cannot meet their obligations.

In the case of the Kingston Tennis Club – lenders feel they have some margin of safety in that the tennis club owns a valuable piece of property – with the highest and best use of that property, from an economic standpoint, being for residential development. A lender may value our property (for sake of argument) at \$2 million dollars – so based on their lending criteria (using a 60% debt limit) they might be willing to loan us \$1.2 million dollars.

If Kingston Tennis Club cannot meet its obligations – the lender can simply realize on their security and come out unscathed.

While the KTC may be worth \$2M as residential lots – it is certainly not worth that as a viable business. As noted previously our ongoing sustainable cash flow is currently in the order of \$74,100, and that amount will be reduced to \$35,400 should a \$1.5M project go ahead, before any allowance for debt service.

According to William Bruce, the president of the American Business Brokers Association, almost all privately held businesses will appraise for somewhere between one and five times what he calls discretionary earnings – i.e. cash left over for return on investment and debt service.

Using the top end of this range (5 times cash flow) the club would currently be worth approximately \$370,500 as an ongoing business, with that figure coming down to \$177,000 should the capital project go through.

If the club is going to remain viable financially, it is important that any financing decisions are made in the context of the club's value as an operating tennis club.

Just because a lender may be willing to lend us money on the basis of the club's value as residential building lots does not make it a good idea to borrow the money. The lender's risk may be negligible, but if we make financing decisions based on inflated residential property values, the borrower's risk as an operating entity is considerably higher than the lender's risk.

Appendix – Capital Reserves Calculations

Court Maintenance Schedule		cost in 2017	in 25 years	25 # courts	cost (000)		
Resurface 1-6: every ~28 years		\$35,000	once	1	6	\$210,000	
Resurface 7: every ~25 years		\$35,000	once	1	1	\$35,000	
Paint all: every ~6-7 years		\$5,000	4 times	3	7	\$105,000	
					Total	\$350,000	
					Annual set aside	\$14,000	
					(growing at replacement inflation)		
Court rebuild & paint history		R= rebuild; P= paint			(000)		
Year	Court 1	2	3	4	5	6	7
R	1979	\$6					\$6
	1980	P	P				
poor info for eighties & nineties							
P	1999			\$3	\$3	\$3	
R	2004						\$35
R	2005			\$16	\$16	\$16	
R	2007	R					
R,P	2009		\$23	\$23			\$4
P	2011			\$5	\$5	\$5	
P	2013	\$5					
P	2018			\$5	\$5	\$5	
Building Maintenance Reserves				Cost	reserve/yr		
Build on Lawn				\$675,000	1%	\$6,750	
Most replacement reserve installments are between .08% to .13% of the original principal borrowed per mont							
https://businessecon.org/2016/04/replacement-reserves-understanding-the-fundamentals/#Planning_a							
Lights & Fences Maintenance Reserve				Cost	reserve/yr		
Fences				\$100,000	1%	\$1,000	
Lights				\$250,000	1%	\$2,500	
Total						\$3,500	
Annual Capital Replacement Reserve Est.				Build on Lawn	\$24,250		