

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



Derryfield Country Club Golf Course Compliance Audit

Prepared by

City of Manchester, NH

Office of the Independent City Auditor

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
DERRYFIELD COUNTRY CLUB GOLF COURSE COMPLIANCE
AUDIT**

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City of Manchester
Office of the Independent City Auditor

One City Hall Plaza
Manchester, New Hampshire 03101
Phone: (603) 624-6460
Fax: (603) 624-6549

September 30, 2011

Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: O'Neil, Arnold, Long, Corriveau, and Shaw

Dear Honorable Committee Members:

Per the current five year audit plan an audit of the Derryfield Country Club Golf Course was conducted. The audit was an attestation engagement to reach an opinion on certain contract provisions between the City of Manchester and Mike Ryan, the golf professional who runs the golf operation. The audit also included compliance with certain City policies and procedures concerning the handling and recording of revenue and expenditures.

Scope

This attestation engagement was a compliance audit of significant items in the contract between the City of Manchester and the Golf Shop, City revenue and expenditure policies and the Department of Parks Recreation and Cemeteries' Policy and Procedures Manual. The audit period was the 21 months ended March 31, 2011 and was used to answer the questions below:

- Has the management fee of 6% been calculated correctly?
- Is the revenue breakdown between the golf shop items and golf fees payable to the City being recorded correctly?
- Was the year end payment calculation done correctly and timely?
- Are shop expenditures paid for by the City only the allowable expenditures as determined by the contract?
- Are cash deposits of golf fees done daily Monday through Fridays?
- Are the golf cart rental fees that are charged pre-approved by the City?
- Are the green fees being charged in accordance with the ones approved by the City?
- Does the labor distribution being charged to the Enterprise Fund of City employees' time reflect actual time spent on golf operations?
- Are expenditures charged to the golf course Enterprise account in accordance with City and P&R policies?

- Was the increase in golf fees sufficient to cover the additional cost of the bonds used to cover recent golf course improvements?

Procedures

The engagement procedures began with a review of the agreements between the City of Manchester and the golf pro, City of Manchester Policy and Procedures Manual, and Parks and Recreation Policies and Procedures Manual. Items that were determined to be significant to the operation were then selected for testing.

For items selected for compliance testing the internal control structure used to ensure compliance was documented.

Tests were then developed to determine compliance with items selected and to test the adequacy of the internal controls in place during the audit period.

Findings and Conclusion

It was determined that adequate controls are in place to ensure compliance with tested contract requirements and City policies. No instances of noncompliance were found during the testing phase of the audit. It was noted however that the amount of revenues collected were inadequate to cover the level of expenditures required to properly run the golf course. It does not appear that the situation will be improving in the foreseeable future and it is recommended that a General Fund subsidy be included in the Parks and Recreation Enterprise budget.

A draft of this report was sent to management at the Division of Parks and Recreation for their review and comment. I appreciate the courtesy and cooperation of management and staff of the Parks and Recreation Division and the staff of Golf Shop on this assignment who showed complete professionalism at all times during this review.

This audit was conducted in accordance with standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

This report is the result of our evaluation of the information noted above and is intended solely for the information of the management of the Derryfield Country Club and the Board of Mayor and Aldermen of the City of Manchester. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Committee on Accounts, Enrollment and Revenue Administration is a matter of public record.

Respectfully Submitted,

Kevin Buckley, CPA
Internal Audit Manager

BACK GROUND

Parks and Recreation Enterprise Fund

During the 1995 budgeting process it was proposed that the Parks and Recreation Department be separated into two entities. One entity, the Parks and Recreation-Enterprise (P&R-E), would consist of the revenue generating venues. It was the intent that the P&R-E would be operated by the P&R Commission as a business so that all revenue generated could be put back into the facilities and operations. The original budget had budgeted expenditures of \$2,000,000 and estimated revenues of \$1,530,525. At that time in addition to the estimated revenues a \$650,000 operating reimbursement from the City's General Fund was included to make up for the shortfall between estimated revenues and budgeted expenditures. During the initial year the operating revenue was an estimate of what the School Department would pay for their use of the facilities. The School Department is charged by work orders based on actual use of the facilities.

It was soon discovered that the actual school usage was closer to \$350,000 per year and starting in 1999 the City was providing a \$300,000 subsidy to make up for the shortfall. As part of the 2006 budget process it was proposed that the subsidy be eliminated and the responsibility of balancing the budget was delegated to the Parks, Recreation and Cemetery Commission.

As of the latest audited financial statements for the year ended June 30, 2010, the deficit fund balance in the P&R-E Fund was \$3,142,154 and is expected to be over \$4,000,000 at June 30, 2011. The General Fund must also loan the P&R-E fund cash to continue to operate. The cash deficit in the P&R-E Fund had risen to approximately \$5.3 million dollars at June 30, 2011

Derryfield Country Club

The Derryfield Country Club (DCC) is a 115.5 acre, eighteen-hole regulation golf course. Established in 1932, Derryfield is one of three municipally-owned golf courses in the State of NH. DCC offers memberships, greens fees, lessons and tournaments. The new clubhouse constructed in 2005 contains a pro shop, locker rooms, indoor golf simulator and a restaurant/banquet facility with a deck overlooking the golf course. The new club house building also houses the Park and Recreation business office.

REVENUES

The DCC receives it's revenues from four main sources:

- Memberships
- Greens Fees
- Tournaments
- Restaurant fees

This audit concentrated on the first three categories of revenues, restaurant fees will be tested in a separate audit.

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Resident Memberships	\$359,410.00	\$297,975.00	\$283,170.00	\$351,496.00	\$328,517.00
Nonresident Memberships	\$ 91,988.00	\$ 74,003.00	\$ 65,335.00	\$ -	\$ -
Total Memberships	\$451,398.00	\$371,978.00	\$348,505.00	\$351,496.00	\$328,517.00
Green Fees	\$187,295.00	\$185,235.00	\$213,563.00	\$218,970.00	\$222,289.00
Tournament Fees	\$ 23,575.00	\$ 30,207.00	\$ 57,720.74	\$ 14,991.00	\$ 32,045.00
Other fees and Revenues	\$ 200.00	\$ (200.00)	\$ 6,933.33	\$ (6,196.00)	\$ 1,237.33
Building Rent	\$137,026.00	\$101,976.66	\$127,073.04	\$127,073.04	\$127,073.04
Percentage of Gross	\$ 13,379.23	\$ 27,653.84	\$ 34,494.00	\$ 34,565.00	\$ 33,088.20
Restaurant Revenue	\$150,405.23	\$129,630.50	\$161,567.04	\$161,638.04	\$160,161.24
Total Revenue	\$812,873.23	\$716,850.50	\$788,289.11	\$740,899.04	\$744,249.57

SOURCE: HTE Budget to Actual Reports

Membership fees have always been the largest source of revenues at the golf course. Since 2005 revenues from nonresident memberships had been steadily decreasing from a high of \$101,157 in 2005 to \$63,335 in 2008 (35% decrease). The P&R commission in an attempt to halt the decrease in members eliminated the nonresident fee and offered the resident membership to all. FY 2009 showed an overall increase in membership revenue due to an increase in fees but membership remained flat and membership revenue was down the following year. 2011 also has seen a slight decrease in memberships.

Green fees have also seen a steady decrease in revenues until FY 2008 and have slowly been increasing since due to the addition of off-peak pricing and school of pharmacy fees.

Tournament fee revenue has seen good years and bad years but the general trend seems to be an increase in both the number of tournaments and revenues they generate.

EXPENDITURES

Expenditures for the last five fiscal years are as follows:

Description	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Payroll	\$ 260,567	\$ 282,044	\$ 297,495	\$ 327,098	\$ 314,081
Employee Benefits	\$ 72,329	\$ 95,772	\$ 95,282	\$ 144,930	\$ 159,371
Debt Costs	\$ 114,022	\$ 202,346	\$ 332,485	\$ 339,229	\$ 343,402
Other Expenses	\$ 123,922	\$ 154,706	\$ 152,186	\$ 156,233	\$ 142,004
Vehicles and Equipment	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 570,840	\$ 734,868	\$ 877,448	\$ 967,490	\$ 958,858

SOURCE: HTE Budget to Actual Reports

Expenditures have increased over the last five years by 68%. The biggest drivers of expenditure increases are employee benefits \$87,042 (120%) and debt costs \$229,381 (201%). Debt cost increases are due to new bonds issued for course and facilities improvements. In FY 2000 Debt costs were \$21, 490. If no new debt is incurred the debt costs will remain at approximately the same level until after FY 2022.

DEBT SCHEDULE

	Principal	Interest	Total
6/30/2010	\$ 200,160.00	\$ 145,280.04	\$ 345,440.04
6/30/2011	\$ 211,129.00	\$ 137,332.67	\$ 348,461.67
6/30/2012	\$ 219,888.00	\$ 128,526.25	\$ 348,414.25
6/30/2013	\$ 226,467.00	\$ 118,909.73	\$ 345,376.73
6/30/2014	\$ 234,054.00	\$ 109,553.87	\$ 343,607.87
6/30/2015	\$ 217,011.00	\$ 100,635.53	\$ 317,646.53
6/30/2016	\$ 208,922.00	\$ 91,776.54	\$ 300,698.54
6/30/2017	\$ 283,009.00	\$ 81,353.29	\$ 364,362.29
6/30/2018	\$ 278,713.00	\$ 67,224.22	\$ 345,937.22
6/30/2019	\$ 305,615.00	\$ 54,568.59	\$ 360,183.59
6/30/2020	\$ 315,046.00	\$ 41,800.66	\$ 356,846.66
6/30/2021	\$ 326,262.00	\$ 28,991.17	\$ 355,253.17
6/30/2022	\$ 355,071.00	\$ 15,750.85	\$ 370,821.85
6/30/2023	\$ 19,085.00	\$ 1,371.47	\$ 20,456.47
6/30/2024	\$ 17,675.00	\$ 445.40	\$ 18,120.40
	\$3,418,107.00	\$1,123,520.28	\$4,541,627.28

OBSERVATION 1: GOLF REVENUES ARE INSUFFICIENT TO COVER EXPENDITURES

The Finance Officer is charged with developing and maintaining a system of accounting controls in the City of Manchester. As such the Finance Officer has developed policies and procedures for all departments in order to carry out the duties assigned to the Finance Department.

The Finance Office Policies and Procedures Manual Chapter XI Revenue Policy dictates that Enterprise charges for sales and services are comprised of a direct charge or fee to the beneficiary of a sale or service based on location, capacity, and consumption. These revenues are designed to recover total costs, including but not limited to, direct costs; indirect costs; debt service costs; and capital maintenance. As a general revenue policy the revenue design shall guarantee full cost recovery where possible.

**SCHEDULE OF REVENUES AND EXPENDITURES
DERRYFIELD COUNTRY CLUB 2006 TO 2010**

Description	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Expenditures					
Payroll	\$ 260,567	\$ 282,043	\$ 297,495	\$ 327,098	\$ 314,081
Employee Benefits	\$ 72,329	\$ 95,771	\$ 95,283	\$ 144,931	\$ 159,371
Debt Costs	\$ 114,021	\$ 202,346	\$ 332,485	\$ 339,229	\$ 343,402
Other Expenses	\$ 123,922	\$ 154,706	\$ 152,186	\$ 156,233	\$ 142,004
Total Expenditures	\$ 570,840	\$ 734,868	\$ 877,448	\$ 967,490	\$ 958,858
Revenues					
Resident Memberships	\$ 359,410	\$ 297,975	\$ 283,170	\$ 351,496	\$ 328,517
Green Fees	\$ 181,436	\$ 162,800	\$ 169,906	\$ 172,829	\$ 163,470
Nonresident Memberships	\$ 91,988	\$ 74,003	\$ 65,335	\$ -	\$ -
Tournament Fees	\$ 23,575	\$ 30,207	\$ 57,721	\$ 14,991	\$ 32,045
Other Green fees	\$ 5,859	\$ 22,435	\$ 43,657	\$ 46,141	\$ 61,024
Misc Revenue	\$ 200	\$ (200)	\$ 6,933	\$ (6,196)	\$ (968)
Restaurant Revenue	\$ 150,405	\$ 129,631	\$ 161,567	\$ 161,638	\$ 160,161
Total Revenue	\$ 812,873	\$ 716,851	\$ 788,289	\$ 740,899	\$ 744,250
Revenues Less Expenditures	\$ 242,033	\$ (18,017)	\$ (89,159)	\$ (226,591)	\$ (214,609)

Source: HTE Budget to Actual Reports

Activities of the golf course operations are accounted for in the Recreation Fund, an Enterprise Fund of the City. The golf operation is the largest contributor of revenues to the Recreation Fund. Through FY 2007 Derryfield Country Club (DCC) revenues contributed positively to the

Recreation Fund balance. Since FY 2007 however revenues produced at the DCC have been insufficient to cover its expenses. Despite a rate increase in CY 2010 revenues are still insufficient to cover expenses at DCC.

The causes for the revenue shortage are comprised of several issues. According to statistics from the National Golf Foundation and PGA of America since 2000 participation in golf each year has declined or remained flat. Not only have the amount of golfers declined but the number of times per year each golfer plays has also been in decline. Reasons for the decline are many including economic factors due to the recent recession. Per conversation with the golf pro at DCC the decline has hit this area also.

Expenditures have been increasing quickly at the DCC due to the large capital outlay in recent years to improve the drainage of several of the holes and to build the new clubhouse. In FY 2004 the total annual debt service for the DCC (maturing debt plus debt interest) was \$50,060. In FY 2011 debt service has increased to \$347, 385 and will remain at approximately this level until FY 2022.

Based on the above analysis it does not appear that the DCC will be able to contribute positively to fund balance into the foreseeable future.

Recommendation:

This issue at the DCC represents the overall problem with the Recreation Fund. As of June 30, 2010 the fund deficit in the Recreation Fund was \$3,142,154. It is estimated that the deficit will be over \$4 million at June 30, 2011. The cash deficit in the recreation fund that was at \$4.6 million at June 30, 2010 has increased to \$5.3 million at June 30, 2011.

It is clear that the Recreation Fund cannot operate as an enterprise fund without a General Fund subsidy. Since the creation of the Recreation Fund the City has allowed the fund to run at a deficit in hopes that eventually it would be self sustaining. This does not seem likely. The City has functionally been giving the Recreation Fund a subsidy by loaning it operating cash to function and covering the fund deficit with the General Fund positive fund balance. It is time that the City recognize the fund deficit by either budgeting a General Fund subsidy to the Recreation Fund annually that would be large enough to cover the annual shortfall plus pay down a portion of the deficit or to eliminate the Recreation Fund and make it part of the General Fund. Either way the Recreation Fund should no longer be allowed to operate every year in a deficit position.

Auditee Response:

See page 11 for auditee response

FACILITY UTILIZATION

The Derryfield Country Club (DCC) is a warm weather recreation facility serving golfers. The DCC for the most part is operational from April through November depending on weather. The number of rounds played during the golf season is also dependent on the number of days when it is not raining and the condition of course allow play.

Play is on a first come first serve basis on weekdays. Weekend and holidays require a reservation. Tournaments take precedence on a daily basis. In 2010 the course had over 45 tournaments and special events scheduled during the 2011 season 50 tournaments and special events were scheduled. The daily schedule is comprised of nine minute slots. Each slot can accommodate 4 golfers but anywhere from one to four golfers may occupy a slot. During the 2010 season 34,363 rounds of golf were played. Of the 2010 rounds played 11,717 rounds were from greens fees, 20,495 rounds were from membership play.

Membership during 2010 and 2011 (as of July 14, 2011) was as follows:

	2006	2007	2008	2009	2010	*2011
<u>Memberships Sold</u>						
Single	342	261	244	228	237	234
Family	171	145	150	117	106	63
Junior	44	37	49	22	12	14
Intermediate	72	73	49	41	46	27
Senior	107	94	94	104	100	110
Other	27	24	21	15	58	31
Total	763	634	607	527	559	479
<u>Rounds Played</u>						
Greens Fee Rounds	9,159	9,705	10,351	10,839	11,717	
Member Rounds	27,142	20,033	20,355	20,196	20,495	
Member Tournaments	1,825	1,998	1,341	757	1,422	
League/Complimentary	168	100	110	355	729	
Total	38,294	31,836	32,157	32,147	34,363	

*Includes memberships sold through June of 2011

Source: Rounds played reports from golf pro shop POS System

COURSE IMPROVEMENTS

The course also has several holes that are in low lying areas that are prone to being too wet to play. If there is a heavy snow year or a very rainy spring these holes may not be open for play until the areas dry out. In recent years a large effort has been made to improve play and drainage on several holes. Reconstruction has taken place on the 7th, 8th, and 12th holes in 2001, the 2nd, 5th, and 18th tees were rebuilt in 2002 and drainage improvements took place from 2007 through 2008. A new clubhouse and parking lot was constructed in 2005. The Derryfield Country Club Master Plan calls for improvements of the remainder of the holes in the future.

In addition to course improvements a new building was erected consisting of a golf shop, locker rooms, Parks and Recreation offices and a 10,000 square foot restaurant and banquet facilities.

AUDIT CONCLUSION

Based on the test work performed it appears that for the following areas tested there were no instances of noncompliance with tested contract requirements and City policy and procedures and it appears that internal controls were adequate to minimize the chance that noncompliance could occur and not be detected by employees in the normal course of their duties.

- Has the management fee of 6% been calculated correctly?
- Is the revenue breakdown between the golf shop items and golf fees payable to the City being recorded correctly?
- Was the year end payment calculation done correctly and timely?
- Are shop expenditures paid for by the City only the allowable expenditures as determined by the contract?
- Are cash deposits of golf fees done daily Monday through Fridays?
- Are the golf cart rental fees that are charged pre-approved by the City?
- Are the green fees being charged in accordance with the ones approved by the City?
- Does the labor distribution being charged to the Enterprise Fund of City employees time reflect actual time spent on golf operations?
- Are expenditures charged to the golf course Enterprise account in accordance with City and P&R policies?

The last point tested was:

- Was the increase in golf fees sufficient to cover the additional cost of the bonds used to cover recent golf course improvements?

And it was determined that revenues are not sufficient to cover the additional cost of debt incurred for golf course improvements. It also appears unlikely that revenues will increase sufficiently to cover such cost in the foreseeable future and that a General Fund Subsidy is required to operate the golf facility.

RESPONSE TO DERRYFIELD COUNTRY CLUB AUDIT

The Auditor has a clear understanding of the enterprise history and the Derryfield Country Club (DCC). He accurately describes the current status of the operation. We appreciate his confirmation that there were no instances of noncompliance with tested contract requirements or with city policy and procedures.

In assessing the last point tested, he reviews the current data only, and we feel it is important to view the entire historical data. Since 1995, the DCC has a net operating profit of some \$2.5 million. Deficits began in 2007, coinciding with the construction of the clubhouse and its attendant debt service. This is partly because of the way the debt payments from the tenant of the clubhouse were structured. In ten years, payments on the debt from the Derryfield Restaurant will cover this debt service.

For the full picture, the enterprise should be considered as a whole. At its inception in 1995, the clubhouse was at the end of its life-cycle, the golf course was in need of improvements, and the arenas were in need of major repairs. The decision to replace the clubhouse was appropriate, drainage work was performed on the golf course, and measures were taken to extend and restore the useful life cycles of the arenas. The resulting debt, however, has moved the Enterprise into a deficit situation.

The Parks Enterprise Division has been and continues to operate with the goal of becoming self-sustaining.

Derryfield Country Club Financials

The DCC has been part of the Enterprise since its inception in 1995. Below is a chart showing annual profit/loss of the DCC. The FY 2012 numbers are those budgeted, and nine months into this fiscal year we are projecting a decrease in expenses and an increase in revenues which will lower the total net loss compared to the year prior. Included in FY 2012 are contingency funds totaling \$50,000 allowing us to make small improvements to the course, which will result in more pleasant and comfortable play, and will inform our members that we are looking to improve play in every way we can.

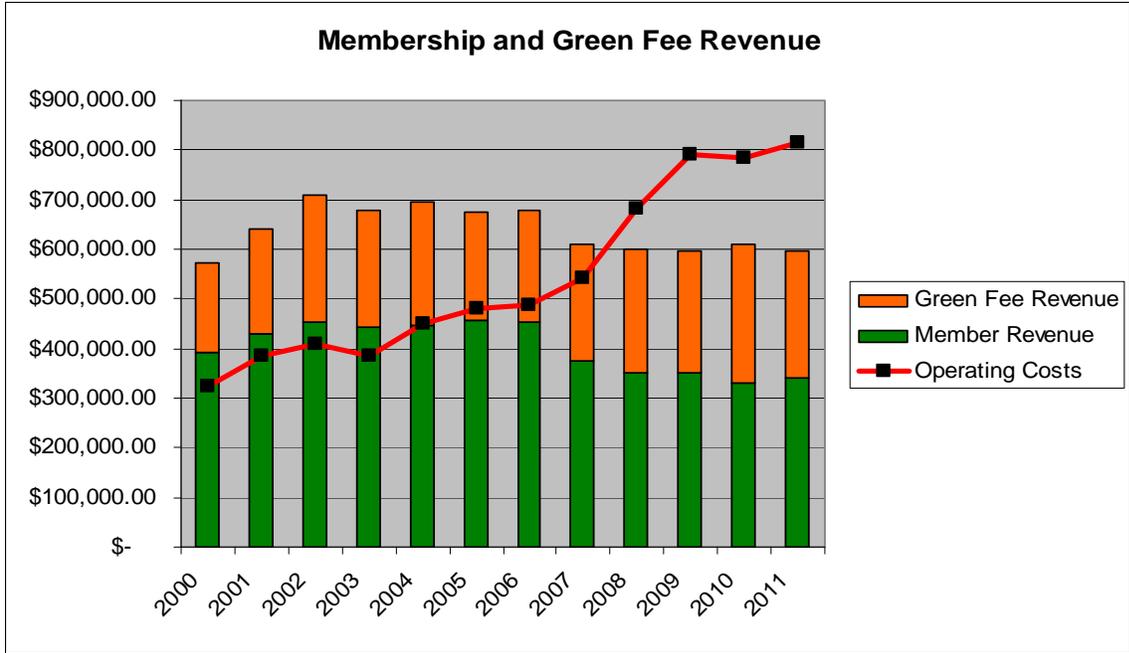
The FY 2013 numbers are budget projections. Like FY 2012, they contain contingency monies for small course improvements while still showing a reduction in the net loss.

	Revenues	Total Operating Expense	DCC Debt Service Not including Building	DCC Building Debt	Net Profit/Loss	Cumulative Profit/Loss
1995	\$660,566	\$222,952	\$0	\$0	\$437,614	\$437,614
1996	\$556,909	\$238,567	\$0	\$0	\$318,342	\$755,956
1997	\$599,203	\$267,067	\$0	\$0	\$332,136	\$1,088,092
1998	\$636,350	\$312,525	\$0	\$0	\$323,825	\$1,411,917
1999	\$675,889	\$345,117	\$0	\$0	\$330,772	\$1,742,689
2000	\$613,099	\$301,157	\$21,023	\$0	\$290,920	\$2,033,609
2001	\$617,324	\$365,887	\$21,008	\$0	\$230,430	\$2,264,038
2002	\$731,169	\$389,985	\$20,438	\$0	\$320,747	\$2,584,785
2003	\$697,592	\$363,755	\$19,838	\$0	\$314,000	\$2,898,784
2004	\$697,522	\$423,884	\$26,217	\$0	\$247,421	\$3,146,205
2005	\$675,915	\$419,945	\$59,947	\$0	\$196,023	\$3,342,228
2006	\$812,873	\$464,435	\$106,405	\$0	\$242,033	\$3,584,261
2007	\$716,850	\$547,807	\$119,855	\$67,206	-\$18,018	\$3,566,243
2008	\$788,289	\$543,714	\$135,102	\$198,632	-\$89,159	\$3,477,084
2009	\$740,899	\$625,788	\$132,211	\$209,491	-\$226,591	\$3,250,493
2010	\$744,249	\$613,418	\$119,227	\$226,213	-\$214,609	\$3,035,884
2011	\$728,349	\$595,208	\$115,264	\$231,822	-\$213,946	\$2,821,939
Budget 2012	\$803,015	\$655,412	\$109,331	\$237,341	-\$199,069	\$2,622,869
Budget 2013	\$840,815	\$642,567	\$110,953	\$235,045	-\$147,750	\$2,475,119
Totals	\$13,336,877	\$8,339,190				

In 2007, the City of Manchester entered into an agreement with BLL Restaurant Inc to construct a new Country Club complex. This building houses the Derryfield Restaurant, a function hall, the golf pro shop, and the Parks, Recreation and Cemetery office. The agreement states that BLL Restaurant Inc will cover 74.25% of the debt service over 25 years. The bond repayment schedule is 20 years, so the restaurant payments will cover much less than the buildings debt service until 2023.

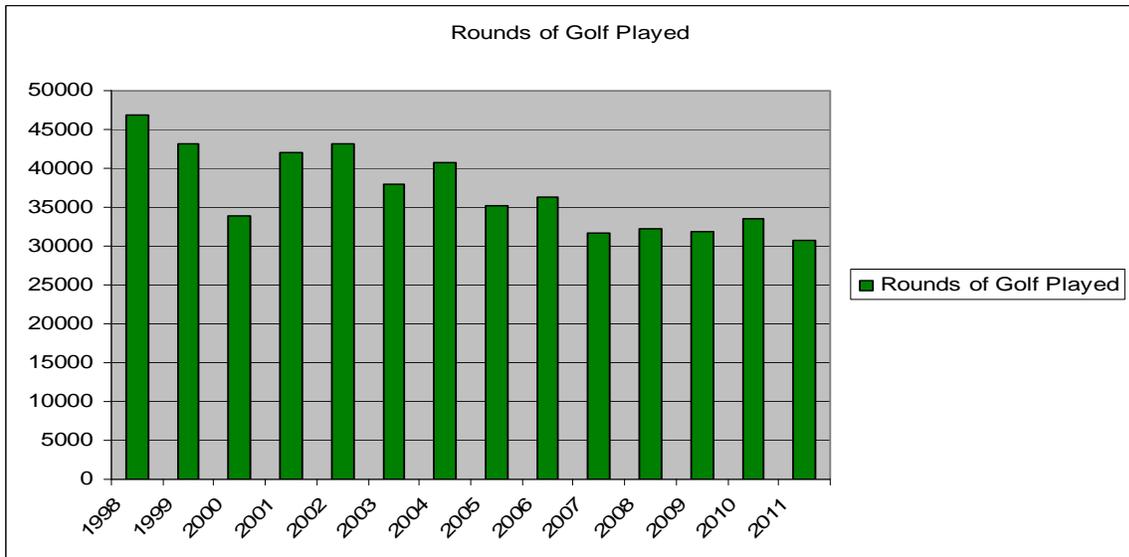
The remaining 25.75% of the building debt until recently has been paid fully by the enterprise even though the general fund operations of the P, R & C occupy a large portion of the office space. As part of the enterprise reorganization in FY2012, the proper cost allocation between the general fund and enterprise fund was put into place. The enterprise now charges the general fund 75% of the remaining debt service, adding revenue to the enterprise and thereby reducing the annual deficit.

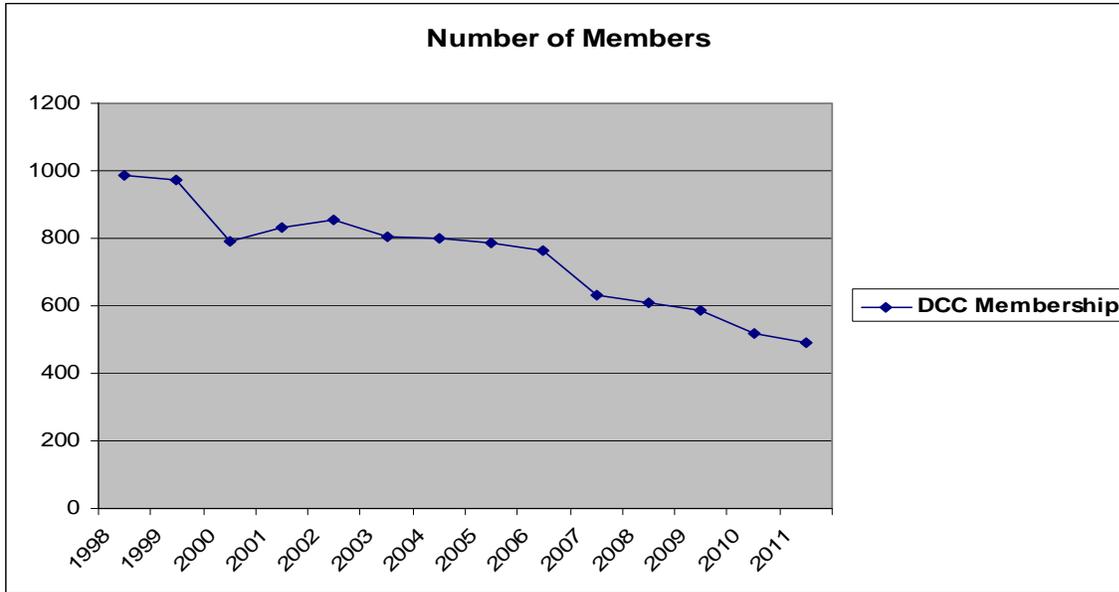
DCC fees went up by 5% in FY2011, while remaining comparable to courses in the area. However, continual increases at this rate would out price DCC in the local market, and would potentially result in a reduction in the number of rounds played. Continual large fee increases do not appear to be a logical solution to solving the operating deficit



*Operating cost has restaurant owner's annual payment subtracted out.

Over the last decade local courses have increased in number and are offering competitive rates to attract memberships and single rounds. Even so, revenue for golf has remained steady at the DCC for the past five years. Membership has declined in this period but the number of rounds played has not due to increased green fee rounds.





Derryfield Country Club Operational Changes

In FY 2011, the Parks Division began to implement a plan to increase revenue and decrease expenses with a goal to minimize the Enterprise operating deficit at the facilities. Implementations included staff re-organization, administrative cost re-distribution, and fee-increases.

Prior to the plan implementation, the DCC maintenance crew was staffed with three full time, year round employees. This staff was supplemented during the golf season with 4 full time employees (these employees worked at the ice arenas in the opposite season), in addition to three part time temporary employees for a total complement of 10 individuals. Under the reorganization in FY 2012, the three full time course employees remained, and the hourly equivalent of 8 part time temporary employees completed the complement. These changes resulted in an increase of 1,600 man hours and a savings of \$46,266. The 4 ice arena employees were reassigned to the Parks maintenance operation.

Derryfield Country Club Goals

In order to increase play and generate revenue towards operating the DCC in the black, we intend to invest in the course in ways large and small.

In 2012, we paved over 1000 feet of cart path and removed more than 100 trees. In the coming years, with the available contingency funds, we will continue cart path work, remove old stumps in play, create features, restore tees, and build new tees. Additionally, we plan to obtain a Permit by Notification from the NH Wetlands Bureau to clear out swales and drainage ways.

We have recently received proposals from Consultant Engineering firms and Golf Professionals with the goal of addressing the slow draining sections of the course. The Mayor has proposed that \$250,000 be made available to cover these costs.

We expect these efforts to result in substantial growth in memberships and green fees.

With the above changes and improvements we expect membership increases for FY2012 to increase by 50, half of the drop incurred over the last two years. We expect another 50 to return in the following year. Additionally, we plan to pursue special memberships, such as corporate and wellness memberships. These will substantially raise the number of rounds played, and increase revenues.

CONCLUSION:

Since 2007, the Derryfield Country Club hasn't produced sufficient revenue for full-cost recovery, however, in the foreseeable future, through course improvements, expanded membership opportunities, substantial marketing efforts, and the eventual expiration of current bonds, we feel we can achieve this goal.

We intend to continue to make improvements large and small to the course, thereby attracting new members and drawing members back who may have let their memberships expire. Modest increases in fees combined with increased membership will, over time, bring the DCC Enterprise bottom line back into balance, all the while providing top quality recreation for the citizens of greater Manchester. Payments from the Derryfield restaurant will exceed the bond payments on the new country club building in the year 2023 and continue until 2027.

The Parks Enterprise operation outside of the DCC has incurred a debt of some \$7.8 million over time. Contributions from the DCC have had the effect of reducing this total by \$2.5 million. The overall result is a \$5.3 million shortfall.

We concur with the auditor's recommendation that the enterprise fund needs a general fund subsidy to avoid annual deficits and to pay down the accrued debt. Alternatively, the enterprise operation could be dissolved and made part of the general fund.