



August 20, 2009

Dear Fellow Members of Kinston Country Club:

2009 has been a challenging year for many of us and Kinston Country Club has not been immune to the negative impact of our local and national economy. While it appears that financially we will finish the year very close to our budgeted target, the path we have traveled to get there is far different than what we anticipated when we assembled our projections for 2009. The following summary compares expected actual financial result for 2009 to their corresponding budgeted amounts:

2009 Projected	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues	785,789	889,570	(103,781)
Member Dues	1,142,599	1,249,397	(106,798)
Operating Expenses	<u>(2,103,375)</u>	<u>(2,257,455)</u>	<u>154,080</u>
Operating Net	(174,987)	(118,488)	(56,499)
Capital Revenues	226,408	271,540	(45,132)
Capital Expenditures	<u>(171,846)</u>	<u>(270,576)</u>	<u>98,730</u>
Capital Net	54,562	964	53,598
Overall Club Net	(120,425)	(117,524)	(2,901)
Depreciation	160,000	160,000	0

As you can see, the overall Club net is very close to budget but the variances for each area differ significantly due to several key factors. These factors are:

- 70 Member resignations to date since mid-December 2008 versus 30 budgeted, causing a deficit in projected revenues from dues, operations and assessments.
- 6 new Members thus far in 2009 versus 18 budgeted for the year, resulting in a deficit in projected initiation fees, dues and operating revenue.
- Good and thoughtful anticipatory management of our operating expenses so as to offset a large portion of the deficiency in revenues.
- No required principal payments on our bank loan for the first four months of 2009 due to transitioning our debt into a fixed rate, defined term instrument.
- Deferring virtually all capital spending except absolute necessities.

Over time, our current business model has become more and more difficult to adequately fund for many reasons but mostly because it requires far more Full Members paying full dues than we have had for several years. To offset this lack of adequate Member funding, for the past ten years the Club has incurred additional debt almost annually, thus negating any principal reductions otherwise achieved. It was the decided goal of the Board of Directors to move the Club toward self sufficiency and eliminate the need for future ancillary funding of operations. 2009 was to be a transition year where we restructured our debt, strengthened our operation, stabilized our Membership and implemented a six year financial plan focused on balancing the budget annually starting in 2010. Because of the history of operating losses, as part of our debt restructuring, the bank required that we secure our loan with our property as collateral. We have also reached the limit of our borrowing power.

What could not have been anticipated was the sharp and swift change in our national and local economies and the resulting effect on our Membership. Normal annual Member attrition averages approximately 5% and we forecast 6% for 2009. Over half of our 70 resigned Members have stated financial reasons for their departure. This loss of Members is not unique to Kinston Country Club as many clubs both in our area and nationally are experiencing this same pattern.

Because our Membership level is far less than what is required to successfully maintain our current business model and because additional borrowing is no longer an option to offset deficits, we believe it is time to significantly modify our operation. If we enter 2010 with our current mode of operation and corresponding expenses and if you assume no change in the number of Club Members throughout 2010, which is unrealistic, our cash deficit next year would be over \$220,000 which would somehow have to be funded by the Membership. And bear in mind that such a deficit includes the great many cost reductions that have already been implemented by management so thinking that we can offset such a deficit by continuing to reduce expenses without significantly impacting services is equally unrealistic.

With all of this in mind, we are proposing a new concept for the operation of Kinston Country Club. In that regard and in accordance with our By-Laws, part of the purpose of this letter is to give proper and timely notice of a Special Membership Meeting to be held Wednesday, September 23, 2009 at 6:30pm in the Clubhouse of Kinston Country Club. The sole purpose of the meeting will be to consider this proposed new operational concept and to vote to accept or reject it. It is essential that all Members attend this meeting so please make every effort to be there. In the event you cannot attend, you may obtain your voting proxy at one of the information meetings described below pursuant to the Club's By-Laws. If voting by proxy, you must submit your proxy card to the Club office no later than 5:00pm on Monday, September 21, 2009. Proxy cards must be properly completed and signed.

There are many components to this new concept and it is vital that all Members fully understand it prior to casting their vote. We will hold a series of informational meetings at the Club as detailed below. In an effort to try and balance the head count at all of the meetings, we suggest you attend the one that corresponds to your last name, however that is not a restriction and you are welcome to come to any one (or more) of them. More important than when you come is that you come.

- Tuesday, September 1 at 6:00pm – Members with last name beginning with A-C
- Wednesday, September 2 at 6:00pm – Members with last name beginning with D-G

- Sunday, September 6 at 3:00pm – Members with last name beginning with H-K
- Tuesday, September 8 at 6:00pm – Members with last name beginning with L-O
- Wednesday, September 9 at 6:00pm – Members with last name beginning with P-Sp
- Monday, September 14 at 6:00pm – Members with last name beginning with St-Z
- Tuesday, September 15 at 6:00pm – Make-up meeting for those unable to previously attend
- Wednesday, September 16 at 6:00pm – Second Make-up meeting

A hard copy of this new concept will be available at these meetings and we will make a power point presentation at each meeting that will fully describe exactly how this proposed new concept will work. Again, we strongly encourage you to attend one or more of these very important informational meetings.

These are challenging times and we appreciate your support of the Club. If you have any questions regarding the Membership meeting, the informational meetings, the proposed new operating concept, proxy voting or any other issue, please see any of the Club's Board Members or General Manager Richard Brucki. We look forward to seeing you at both the informational meetings as well as the Membership meeting.

On behalf of the Board of Directors,

William Connolly
Club President