

Financial Considerations for Future Club Management - 1978

This section concerns a document titled, "Financial Considerations for Future Club Management" that began life as an attachment to the minutes of the Membership Committee's meeting on March 2, 1978, and died--apparently of intentional neglect--shortly afterwards. Paragraph 6 of the minutes for Membership Committee's meeting on March 2, 1978, describes this document as follows:

6. The Membership Committee discussed allocating Club funds for capital and maintenance projects. The product of this discussion is attached as Enclosure 2.

Enclosure 2 is an unsigned and undated three-page document, written in the first person, apparently by the Chairman of the Membership Committee, Colonel J. O. Beckner; it states in full:

FINANCIAL CONSIDERATIONS FOR FUTURE CLUB MANAGEMENT

- I. I think the Membership Committee might be better able to grapple with the problem if they understood the perimeters better. Suggest a briefing along the following lines:
 1. **General principles:**
 - a. Present planning for the next four years is to have capital funded entirely from initiation fees. In general, it is presumed that initiation fees will generate sufficient funds to allow \$100,000 per year plus a 6% factor for inflation to be obligated.
 - b. The present initiation fees probably represent the best the Club can get and still attract the 250 members per year necessary to maintain dues revenue at the budget level.
 - c. The Club will continue to need 250 new members per year for the next four years.
 2. **Assumptions:**
 - a. Present planning for capital expenditures is unrealistically low based solely on maintenance of existing facilities without considering any new construction. The reason for this is that a considerable amount of Club property was built or installed 10 or more years ago and will need replacement within five years. An example is the kitchen.
 - b. The depreciation fund is inadequate to handle all needed renovations since it is based on acquisition costs rather than present replacement costs.
 - c. Initiation fee structure is based upon likelihood of attracting the necessary members rather than on the cost of purchasing a pro-rata share of existing assets.
 - d. As the proportion of active-duty members to other regular members declines, the membership will become more static and less likely to produce sufficient vacancies for more new members. In addition, the increasing age of all active-duty members increases the likelihood that numbers of the now absent members may return to the area for assignment or retirement. This too will limit the number of new members who can be taken in.
 - e. Dues have been maintained at artificially low levels for several years in order to attract active-duty members and retain older members who are on fixed-income budgets.
 - f. It is not unrealistic to assume that there will be recurring necessary capital expenditure in the near future that will further deplete or eliminate the improvement fund as it now exists.

Financial Considerations for Future Club Management - 1978

- g. It may be that some near disaster will completely wipe out the fund prior to 1982.
- h. Even if nothing unusual happens, the Club will be in a deficit status in 1983 for capital expenditures without consideration of any of the projects proposed by the various activities.
- i. It is unlikely that management can or could cut expenses in such magnitude as to make up the difference.

3. Conclusions

- a. The capital fund must be augmented with funds from other sources.
- b. A dues increase is far more palatable to the great majority of members than periodic assessments. This is because most members are fixed-income, fixed-budget people.
- c. Dues increases must be calculated on a five-year basis rather than year-to-year to meet annual budgeted expenses.
- d. The capital account must receive some portion of the dues to reach a viable limit based on maintenance of existing facilities. Construction of new facilities must be considered now and budgeted for now, even though no construction can be undertaken until at least 1983; i.e., the capital fund must be funded to permit more than a zero balance in 1983 if construction of new projects is contemplated sometime thereafter.

4. Recommendations:

- a. The upcoming dues raise include an amount to be placed in the capital Improvement fund.
- b. That a fixed figure be established in the capital improvement fund of \$250,000, increased each year by a factor of 10% to allow for inflation. This fund should be invested at interest and not encroached upon in the absence of some emergency requiring an immediate expenditure of funds.
- c. An additional amount of funds should be generated to provide the annual needs for capital funds based on budgeted (reasonably anticipated) expenses. This would be over and above the basic amount shown in b. above.
- d. Annual dues increases be programmed to attain this goal. Such increases should take into consideration the continuation of the present plan to dedicate all initiation fees to the capital fund.
- e. This and future budgets should include planning for a five-year rather than an annual budget, subject, of course, to annual revisions to conform predictions to reality.
- f. The membership be advised on the plan so that they also can realistically plan for the future.
- g. The ultimate goals be to keep dues as reasonable as possible; to maintain a viable capital program to keep the facilities at least as good as they are now; to have a cushion against disasters; to avoid assessments to the end by careful planning; to be ready for capital improvements as soon as possible after the mortgages are paid off; to avoid further mortgages at unfavorable rates by acquiring sufficient financing in advance of future needs.

II. This is a working paper designed to stimulate thought rather than a plan for the future. Where given, amounts are considered take-off points rather than gospel.

On March 21, 1978, the Finance Committee responded to Enclosure 2 as follows:

Financial Considerations for Future Club Management - 1978

...With regard to...[Enclosure 2] on Club fiscal policy[,] the Finance Committee recommends that...[it] be deleted from the Membership Committee minutes and hence for review by the Board of Governors. This is not to imply that the subject is not worthy of full consideration but rather should be fully evaluated by the Executive Committee and a definite proposal presented to the Board.

On March 30, 1978, the Executive Committee responded to the Finance Committee as follows:

...the "Financial Considerations for Future Club Management" paper attached to the Membership Committee minutes for 2 March 1978 was read and discussed. It was decided that the paper should remain part of the Membership Committee minutes for distribution to members of the Board of Governors, and that the entire subject matter will be forwarded to the Finance Committee for their detailed study and evaluation and for a briefing to the Executive Committee on 4 May 1978 and the Board in connection with the FY79 budget presentation at their 31 May 1978 meeting.

There is no reference to this directive in the minutes for the Finance Committee's next meeting, on April 19, 1978. (The Finance Committee was "on notice" of this paragraph, as it responded to the first paragraph of the section of those minutes in which this paragraph appears (as the second of just two paragraphs.) There is also no reference in the Executive Committee's minutes for its next meeting, on May 4, to the briefing on the document that it was to have received from the Finance Committee at that meeting pursuant to this directive, nor is there any reference in the minutes for the Board of Governors meeting on March 31 to the briefing the Board of Governors was to have received from the Finance Committee at the Board's meeting that day. The Membership Committee itself also appears to have dropped the subject, as it made no comment on it despite the references to it in the meetings of the Finance and Executive Committees. The minutes for the Membership Committee meeting on April 13, 1978, indicate that it reviewed the minutes for the meetings of the Finance and Executive Committees in March, and the minutes for the Membership Committee's meeting on May 11, 1978, indicate that it reviewed the minutes of the Executive Committee meeting on May 4, 1978.

The minutes for the Executive Committee meeting on March 30, 1978, are last references anywhere to the Membership Committee's "Financial Considerations for Future Club Management."