9 Financial Operations in Clubs

Introduction

Most students have taken a module in accounting, finance or both. There are many aspects of both of these areas (and where they overlap) that apply to clubs. In this chapter, we will present the areas with which students should be familiar, and those which club managers have told us are important.

This chapter will focus primarily on 'big picture' financial topics, that is, financial areas that are under the purview of the general manager, finance committee, controller, and/or the board of directors. However, club practices differ from those of other hospitality organizations in both large and small ways, many of which affect their financial procedures. For instance, many clubs do not accept cash payments (or credit cards) for services, only allowing members to charge services rendered to their accounts. This obviously impacts who pays, how they pay, cash flows, and systems and procedures. Another example is the importance of dues to clubs – clubs' greatest source of revenues is usually in dues (quarterly or monthly payments by members). This means that clubs rely greatly on a source of funds that is a function of the number of members, not member activity. Another example of how club finances differ is that they have sources of revenues and expenses that are unique in the hospitality industry, such as initiation fees, 'unused food minimums' and 'unrelated business income'. Add to this that the majority of clubs are operated on a not-for-profit basis, meaning that they manage their operations for the long-term sustainability of the organization and not for short term profit. All of this adds up to clubs representing a unique niche in the area of financial management.

Financial management in clubs

When we refer to financial operations in clubs, we are referring to the ways in which clubs price their products and services, generate and collect revenues, incur and pay expenses, manage their cash and assets (including investments), forecast revenues and expenses, and how they document and report all of the above. Some financial practices are industry-wide while others will differ among different types of clubs, most notably between for-profit and not-for-profit clubs.

Much has been written about the financial side of club operations (for instance, one prominent scholar, Dr. Ray Schmidgall has written extensively on accounting practices in clubs). It is important for students to understand financial operations for three primary reasons; (1) The general manager (for those of you who aspire to this position) is the person ultimately responsible for meeting the financial goals of the organization (along with boards of directors); (2) Clubs are much more focused on their financial results now than they were a generation ago; and (3) Not-for-profit clubs, in particular, are governed by a different set of financial rules than are for-profit organizations. For all of these reasons, it behooves students to learn as much as they can about financial management of a club. In this chapter, we will highlight the main areas with which students should be familiar.

Before we proceed however, let's reiterate one of the important traits of clubs that we have mentioned several times thus far. Most clubs that exist are operated on a not-for-profit basis (as 501(c)7s in the USA). This means that their mission is different from for-profit businesses. It also means that their mission is centred around taking care of their members and they are not under obligation to show a profit. Despite this, an understanding of finance (and accounting, and budgeting and related areas) is important for managers to responsibly manage and protect a club's assets, break-even (or generate profit in a for-profit environment), make critical financial decisions, comply with government tax laws, and otherwise use financial knowledge to manage a club over the short-term and the long-term.

Revenues and expenses in clubs

Revenues

The greatest source of funding for most clubs is dues. On an individual basis, members may pay $6,000 USD, or more, per year to retain their club membership. Thus, if a club has 1,000 members (to keep the maths simple), a club could generate $6 million USD per year in dues alone. In total, clubs generally derive 40% or more of their annual revenues from dues (more for country clubs, less for city clubs). For this reason, clubs depend on dues to fund much of the day-to-day activity of the club. So dues income (which is a function of the dues structure, number of members, and member retention) is critically important to clubs.

Other revenue sources may include food and beverage sales, golf fees (greens fees, cart rentals, lessons, etc.), guest fees, selling of function space, and sale of merchandise. This last category could be sizable, depending upon the types of merchandise and the markup (golf and tennis equipment, clothes, etc.). In addition, city clubs might derive revenues from the sale of overnight guest rooms or parking. Yacht clubs might earn extra money from the rental of moorings or dock space, boat rentals and the like. Some clubs also offer fee-based activities such as fitness classes.

In addition to revenues that come from club members (above), clubs may also generate income from nonmembers (known as nonmember income). This occurs when nonmembers use member facilities, which may include any or all of the above. It also includes any income generated by members of reciprocal clubs (after all, reciprocal members are not true members). The difference here is that member-owned, equity clubs (those that are tax exempt), are limited in some countries (for instance by the IRS in the USA) to a certain proportion of nonmember revenue (15%), and it must be accounted for separately. One source of nonmember income that can be quite significant, is hosting an 'outing' for an outside group. This usually entails committing the entire club to the group though, so is not something that is allowed at every club.

Clubs may also receive income from what are known as 'nontraditional business activities', which can include off-premise catering, sale of food and/or wine to members, and long term rentals of guest rooms. This source of revenue, too, must be kept to a minimum lest clubs be at risk of losing their tax exempt status.

Another significant source of revenue is a club's initiation (or joining) fee. This can range from the low $1,000s to into the $100,000s. Because of the size of the fees, as well as the unpredictability, it is usually treated differently from other sources of revenues. Whereas most of the examples given previously go toward funding the operational budget (see below), initiation fees are usually set aside for funding capital projects and depreciation. More will be said about this later.

Finally, an important point must be made regarding the differences among different revenue sources. Some are simply worth more to a club, that is, they have less cost associated with them. For instance, it is often said that dues payments drop directly to the bottom line. That is to say, there is no direct cost associated with collecting dues from members. On the other hand, $100 received from a member for dinner does not represent $100 in profit. After wages, food, and linens have been paid for, there may only be $5 to $10 left over to cover other expenses, or nothing at all.