

Knowing what you don't know:

The financial management side of running your club like a business

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Learning objectives

1. Understand the financial knowledge expectations of Club boards today
2. Understand the expectation levels Club CEO's should set for their own financial management teams
3. Appreciate how the Club CEO can demand value creation from their financial management team, not just historical reporting
4. Prepare routine financial reporting structures appropriate to the duties of CEO and the requirements of your club

Financial expectations of club boards



A decade of governance challenges: The Sarbanes-Oxley effect

- Cause: poor governance practices
 - Emphasis on civic honor, social activity and fundraising rather than fiduciary responsibility
 - Board chair too entrenched with CEO
 - Large boards leading to only informational board meetings
 - Over-reliance on the executive committee
 - Board committees run by staff rather than directors
 - Minimal time for full deliberation of issues
 - Too little attention to alternative courses of action on proposals
 - Inadequate board involvement in formulating corporate strategic plans
 - Weak internal control systems
 - Lack of attention to conflicts of interest

A decade of governance challenges

- The “intermediate sanctions” effect
 - IRS and media focus on NFP executive compensation
- The “Madoff” effect
 - Development of investment committees and policies to monitor investment risk and performance
- The “Form 990 update” effect
 - Whistleblowers, conflict of interest, record-retention policies; independent directors
- The “financial crisis” effect
 - Reprioritization of services and goals; shorter term strategic planning a more critical board activity

A decade of governance challenges

The Sarbanes-Oxley effect

- Response:
 - 31% hired or appointed a chief governance officer
 - 42% engaged in additional board education
 - 54% updated and promulgated their code of ethics
 - 45% developed an anti-fraud program
 - 52% developed procedures for employees' complaints about accounting, internal controls or auditing matters

Corporate governance trends

- Strategic planning focused on program/service selection in the context of long term goals
- Development of risk management frameworks addressing internal controls & fraud prevention
- Increased scrutiny of investment management approaches and policy
- Development of governance guidelines defining the role of the board in oversight, such as 990's
- Creation of compensation committees or compensation roles on the Board

Corporate governance trends

Have you detected an increase in financial knowledge expectations in your Boardroom?

Examples?

Financial expectations of chief executive officers



Expectation levels

- As experienced CEO's, what financial management expectations do you set for your operation?

What do you need to know?

“I think it would be helpful for COOs/GMs to have exposure in some of the following areas that are financial/accounting related –

- Internal Controls
- Systems Analysis/IT
- Understanding of Financial Statements
- Understanding of the Audit process and reporting
- Familiarity with Form 990 and other IRS reporting forms
- Budgeting
- Break Even Analysis
- Food Costs and Beverage Costs
- Business Levels/Labor”

What do you need to know?

- Financial Concepts
- Key financial statements: balance sheet, income statement, cash flow, notes to f/s
- Management reports - sales and covers, cost of sales, labor, shrinkage, golf course application, golf rounds, etc.
- Accounting Principles: cash vs accrual, materiality, GAAP, conservatism, etc.
- Accounting Terminology : cogs, margins, depreciation and amortization, EBITDA, equity, working capital, ap and ar, prepaids, allowance for doubtful accounts, investing activities, operating activities, etc. common terminology in notes to financial statements - material disclosure, subsequent events, contingencies, etc.
- Internal controls: Tone at top Trust is good... controls are better Segmentation of duties in a small working environment, need for Finance Committee oversight, Information system audits, internal audits, exception reporting, access and key controls,
- Terms of Reference for Finance Committee and how they differ from TOR for the Audit Committee and the need for both

What do you need to know?

- Operating budgets
- Types - zero based, flexible, cash flow, standard, Pros and cons of each budget type Budget resources - past experience, industry info, internal reports, finance committee and board, budget parameters
- Budget vs actual analysis
- Responsibility for variance investigation
- CVP analysis
- Long range vs. short term planning
- Capital budgets
- Lease vs buy, operating vs capital lease, lease vs bank financing
- Present value, future value, discount rates, NPV
- Determining priorities, opportunity costs, return on investment, pay back
- Ratio Analysis
 - Operational, short and long term liquidity

What you attest to knowing

Acknowledgment that management have the primary responsibility for the fair presentation in the financial statements in conformity with generally accepted accounting principles

What you attest to knowing

We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, no provisions are required:

- To reduce receivables to their estimated net collectible amounts.
- To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
- For pension obligations, postretirement benefits other than pensions or deferred compensation agreements attributable to employee services rendered through December 31.
- For environmental cleanup obligations.

What you attest to knowing

The following have been properly recorded and/or disclosed in the financial statements or there are no:

- Leases and material amounts of rental obligations under long-term leases
- Derivative financial instruments
- Related party relationships, transactions and related amounts receivable
- Deferred compensation agreements
- Agreements with financial institutions involving compensating balances or other agreements involving restrictions on cash balances
- Fair value of financial instruments
- Subsequent events
- Pending or threatened litigation

What financial management expectations should you set?



Expectation levels

- As experienced CEO's, what financial management expectations are placed on you?

Planning documents

Strategic Plan

- Board Prepared
- Sets Vision for Club
- Analyzes SWOT
- Sets Goals and Objectives
- Assigns Accountability

Business Plan

- Management Duty
- Provides Tactical Solutions
- Exceeds Goals and Objectives
- Measures Performance

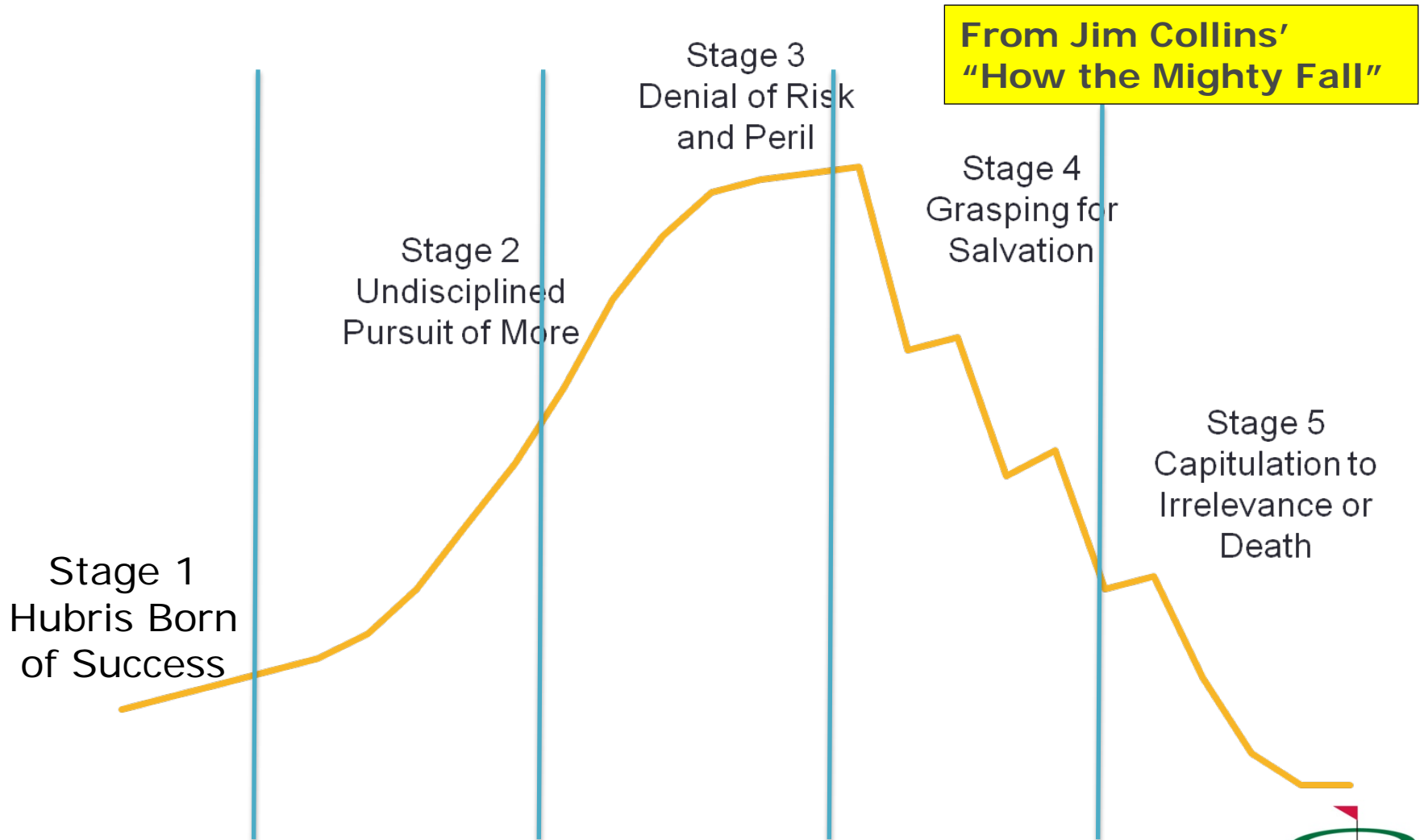
Business plan components

- Executive Summary
- Background and History
- Goals and Objectives
- Market Analysis
- Marketing Plan
- Organization of Management
- Financial Plan
- Critical Risks
- Appendices

Appendices

- HR Policy Manual
- Compensation Method
- H2 Visa Detail
- Detailed Financial Worksheets
- Capital Expense Plan (10-year Rolling)
- Agronomic Plan
- Roster/Schedule of Primary Filings
- Board Orientation re Business Risk

Risk management: 5 stages of decline



Financial expectations: Placing your budget in context

“People who are in financial capacities at nonprofit organizations have to understand that we budget for the mission. We don’t change the mission to suit the budget.”

-- Stanley Corman, former CFO,

YWCA

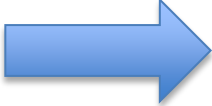
Financial expectations: Placing your budget in context



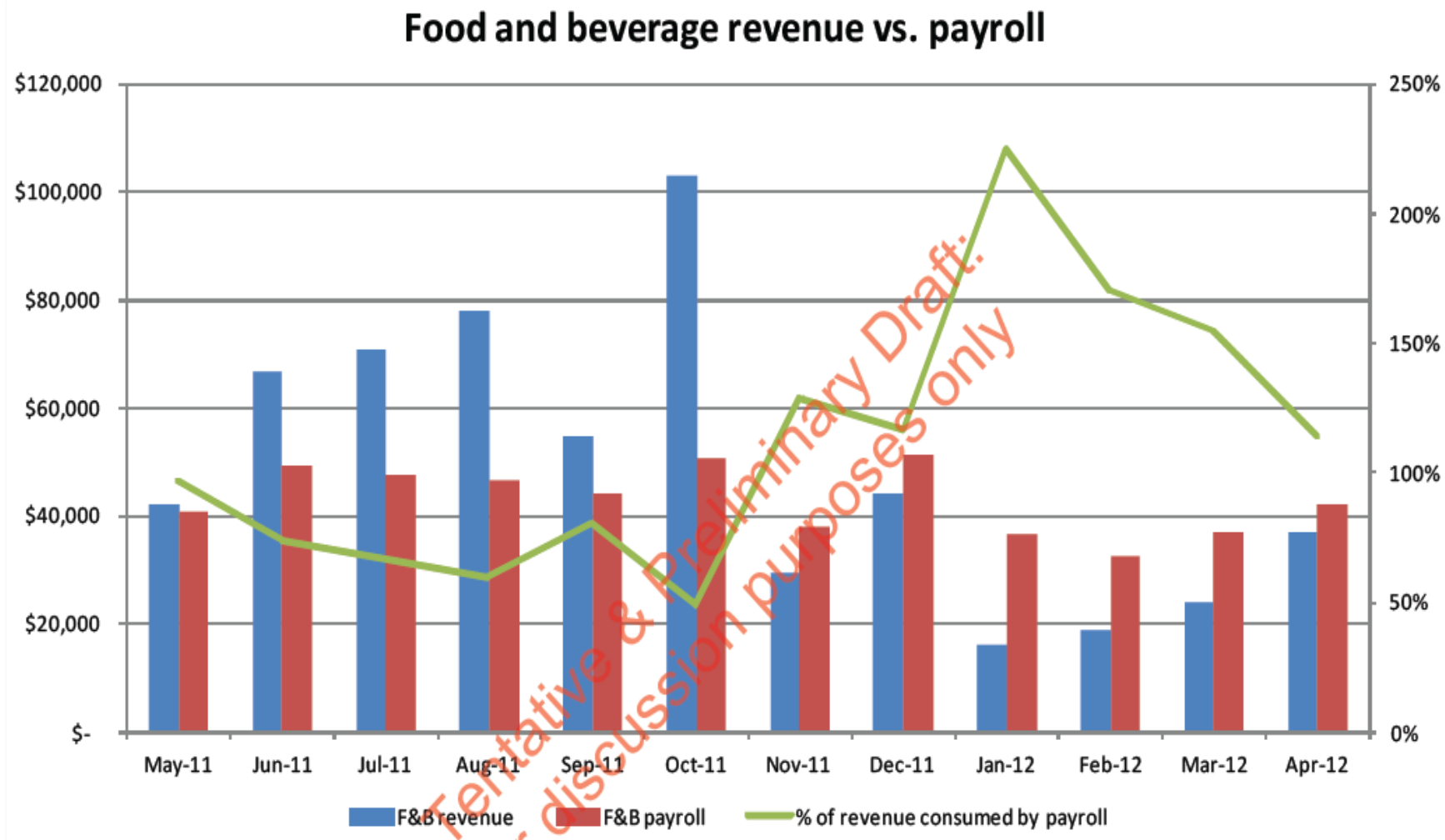
Financial expectations: Placing your budget in context

Incremental
Vs.
Zero Based
Vs.
Forecasting

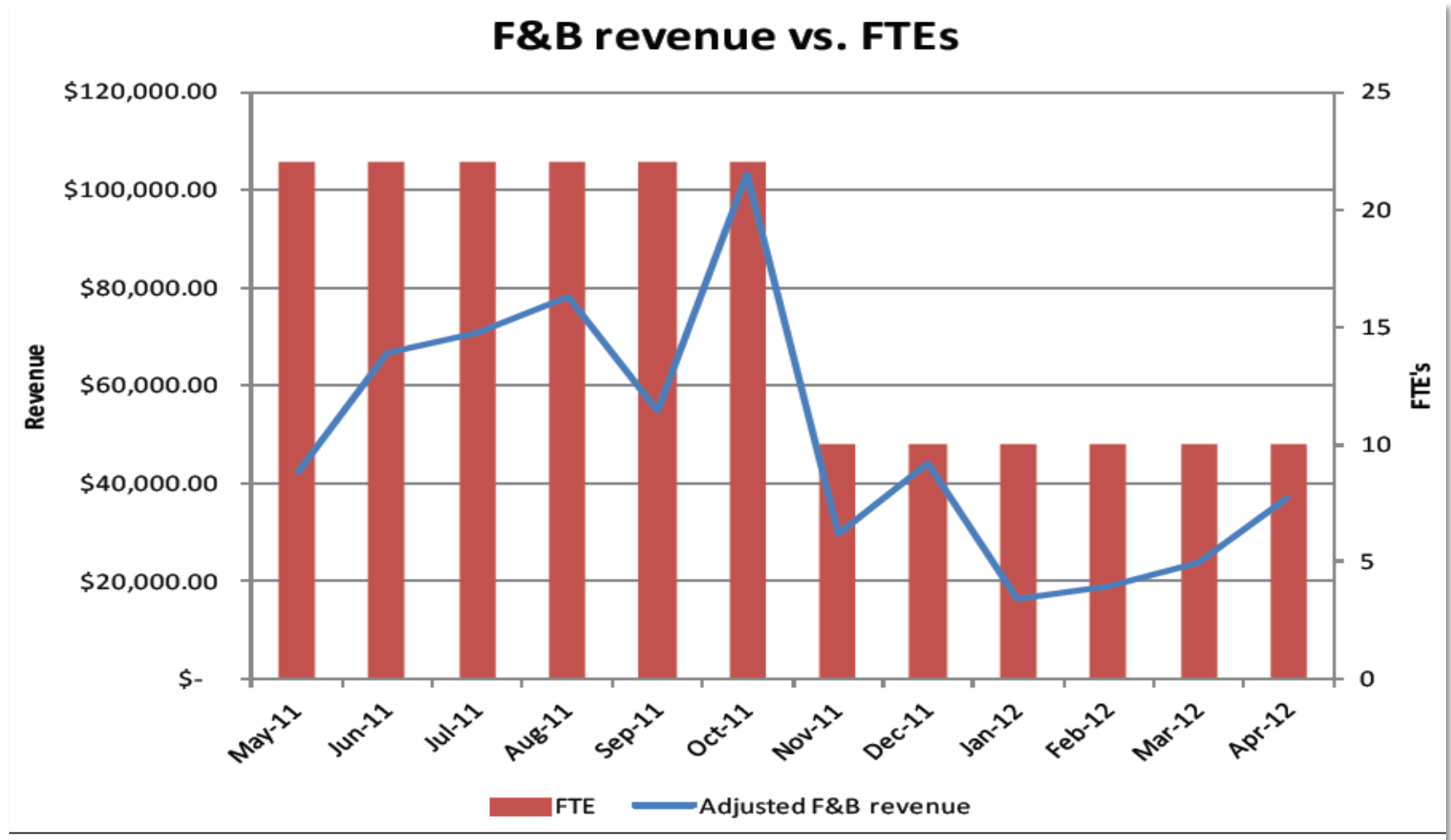
If you have to live and die by the budget, then demand...

- Cash flow reporting and forecasting
- Budget drivers & Information Systems...
 - C.S.F.'s  K.P.I.'s
 - Covers
 - Rounds
 - FTE's
- Do linkages make sense?
 - Do we have the history to stress test our budget?
 - Ratio analysis beyond COS %
 - What external pressures are we at the mercy of?
- How do we use benchmarking?
- Does the budget tell the story of what you really plan to do during the month/quarter/year?

If you have to live and die by the budget, then demand...



If you have to live and die by the budget, then demand...



Demanding value creation from financial managers



Value creation:

A practical use for financial statements?

- "An educated consumer is our best customer,"
 - *Sy Syms (1926-2009) American businessman, entrepreneur and philanthropist*

Value creation: Linking financial metrics to membership

Your financial statements are your #1 marketing document.

What story do they tell?

Value creation: Financial marketing 101

“Not everyone asks, but those who do generally want to see our annual report, our strategic plan, and some want the most recent financial statement. The first two we keep in a stand on the table in the office lobby. They also want to know how many people are on the resigned member list and what the current number of golf members as compared to our cap. They don’t ask how much non-member business we do, which is a little surprising, nor do they ask for a copy of the current budget. (I would ask if I was looking.) They do ask how much dues went up the last time we had an increase.”

Value creation: Financial marketing 101

“In conversations with General Managers, Controllers and the more proactive Marketing Directors, the Recession and the often discretionary nature of Club membership brings the question of the Club’s financial stability to the forefront in the decision to join a particular Club.

Most potential members have demonstrated the financial savvy necessary to be able to join a mid level to high end Club. They are now applying these skills to rationally evaluate the financial health of their prospective Club.

Analysis of the Club’s past use of capital campaigns, current debt obligations, deferred maintenance and current reserves (if any) is key to understand the risks to their investment and the future of the Club overall.

The prospective member should certainly ask these questions and more. The Club that is prepared is the one that will allay these doubts and win the membership.”

[McGladrey Club World - LinkedIn](#)

Who at your club can answer these questions?

- Does the club have debt?
- How much?
- Why?
- How is it being paid off?
- What is the interest rate?
- What is an interest rate swap?

Who at your club can answer these questions *properly*?

Your financial reporting structure



Learning from our mistakes

- What are the most common financial missteps that C.E.O.'s make?

Your controller: Historian or business leader?

The Role

The Controller/CFO, reporting to the GM/CEO, has clear “ownership” for day-to-day financial operations of the Club , while working closely with the leadership team on the achievement and maintenance of *The Vision of the Club*.

Specific emphasis on creating and consistently enhancing an extraordinary lifestyle experience for the Members and their guests is primary to this role.

The Controller/CFO will provide financial leadership contributing to *The Vision of the Club*, and the Club’s business and financial objectives.

Your controller: Historian or business leader?

Critical and Necessary Qualifications; Key Characteristics

- A strong and passionate financial leader with a proven track record of providing supportive, timely and accurate information
- A Team Player who has a history of supporting and developing staff
- A proven “**courageous thought partner**” to an organization leaders
- An intuitive style resulting in a trusting and nurturing perception by all
- **Fundamental understanding of the Club business**

Your controller: Historian or business leader?

1. Please list at least three examples of how you have been a “strategic partner” to your GM (or other individual that you report directly to).
2. How do you evaluate an existing accounting staff and organizational structure to ensure that you have the right team supporting the financial operations of the club?
3. How important is member visibility and interaction in your current role? Please estimate the percent of time that you interact with members and describe the types of interactions.
4. Describe your experience and comfort level in reporting financials to large groups of people and people of influence such as Boards of Directors.
5. Please review the August financial packet attached to this email. Would you make any changes to it to report to the Finance Committee? What would you do to tailor it for the Board of Directors report?
6. Describe your current training program. How do you onboard accounting staff? What ongoing training do you provide for your staff? How active are you in mentoring your staff?

Increasing credibility: Your financial reporting structure

- Financial Statements
 - Management Discussion & Analysis
 - A practical use for your auditors
- Business Mentality
 - Risk management
 - Internal Audits
 - Operational Audits
 - Management Companies

Management discussion & analysis

EDGAROnline

CLUBCORP CLUB OPERATIONS, INC.

FORM 10-Q
(Quarterly Report)

Filed 10/15/12 for the Period Ending 09/04/12

<http://ir.clubcorp.com/SEC>

Your financial reporting structure: What drives financial results?

Area	Score	Reference
Cash	Green	Appendix I
Inventory	Red	Appendix II
Fixed Assets	Green	Appendix III
Membership	Yellow	Appendix IV
Gift Certificates/Cards	Red	Appendix V
Disbursements	Yellow	Appendix VI
Payroll & Benefits	Green	Appendix VII
Retail & Golf Rounds	Green	Appendix VIII
Food & Beverage	Yellow	Appendix IX
Financial Records	Yellow	Appendix X
<i>Overall Property Score</i>	<i>Yellow</i>	

As referenced above, we have included a listing of the specific deficiencies noted that resulted in any yellow or red classifications in the appendices that follow. We have limited this listing to those items we deemed to be of interest to management. We noted other opportunities for improved efficiencies that we deemed to be housekeeping in nature.

The _____ will be following up with property personnel to ensure that appropriate actions have been taken to address related controls deficiencies on a timely basis. Please feel free to contact _____ directly should you have any questions regarding the information included in this report.

Your financial reporting structure: What you attest to

We have no knowledge of fraud or suspected fraud affecting the Club involving:

1. Management,
 2. Employees who have significant roles in the internal control, or
 3. Others where the fraud could have a material effect on the financial statements
- *Management is responsible for the controls to prevent and detect fraud*
 - No knowledge of allegations of fraud or suspected fraud

C.Y.A. = Capture Your Analysis

Fraud Risk Description	Risk Rating (H/M/L)	Potential dollar loss (per member)	Potential solution cost (per member)	Management Recommendation	Board Decision

Your financial reporting structure:

Risk management

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Club's internal control to be material weaknesses:

- Controls over inventory quantity and pricing were insufficient to prevent, detect or correct potential material misstatements of the financial statements
- Controls over the preparation and review of bank reconciliations were insufficient to prevent, detect or correct potential misstatements of the financial statements
- Controls over compliance with certain human resource requirements and dealing with related regulatory authorities were insufficient to prevent, detect or correct potential misstatements of the financial statements
- Club policies and practices regarding whistleblower options for staff were not communicated or reinforced in a manner to encourage employees to report incidents that could have a potential material impact on the Club's financial statements
- The overall control environment of the Club was not appropriately structured and enforced by management to prevent, detect or correct potential material misstatements of the financial statements.

Club risk assessment: Myth or reality?

CLUB AUDIT COMMITTEE RISK ASSESSMENT METHODOLOGY

INHERENT RISK: Financial Loss
Operational Disruption
Reputational Risk
Complexity

QUALITY OF MITIGATING CONTROLS: Written Policies
Training
Monitoring
Inspection/Oversight
Internal Controls

Quality of Mitigating Controls	Weak	Low	Moderate	High
	Adequate	Low	Moderate	High
	Strong	Low	Low	Moderate
		Low	Moderate	High
		Inherent Risk		

- Inherent Risk - Quality of Mitigating Controls = Residual Risk
- Residual Risk is then rated as LOW - MEDIUM - HIGH
- Level of Residual Risk determines frequency of review

The management company financial playbook

- What financial acumen do management companies offer that GM's need to make sure they can offer too?

Final thoughts



“Regrets...we’ve had a few...”

- What financial choices have you made at your operation that you wish you had back?

Five financial lessons from The Great Recession

1. Reimbursable Memberships Were a Flawed Concept
2. Bundled Communities/Mandatory Memberships Work!
3. Membership Marketing Is Constant
4. Financial Planning Is Important.
5. Labor Issues Have Not Abated.

Discussion Q&A

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