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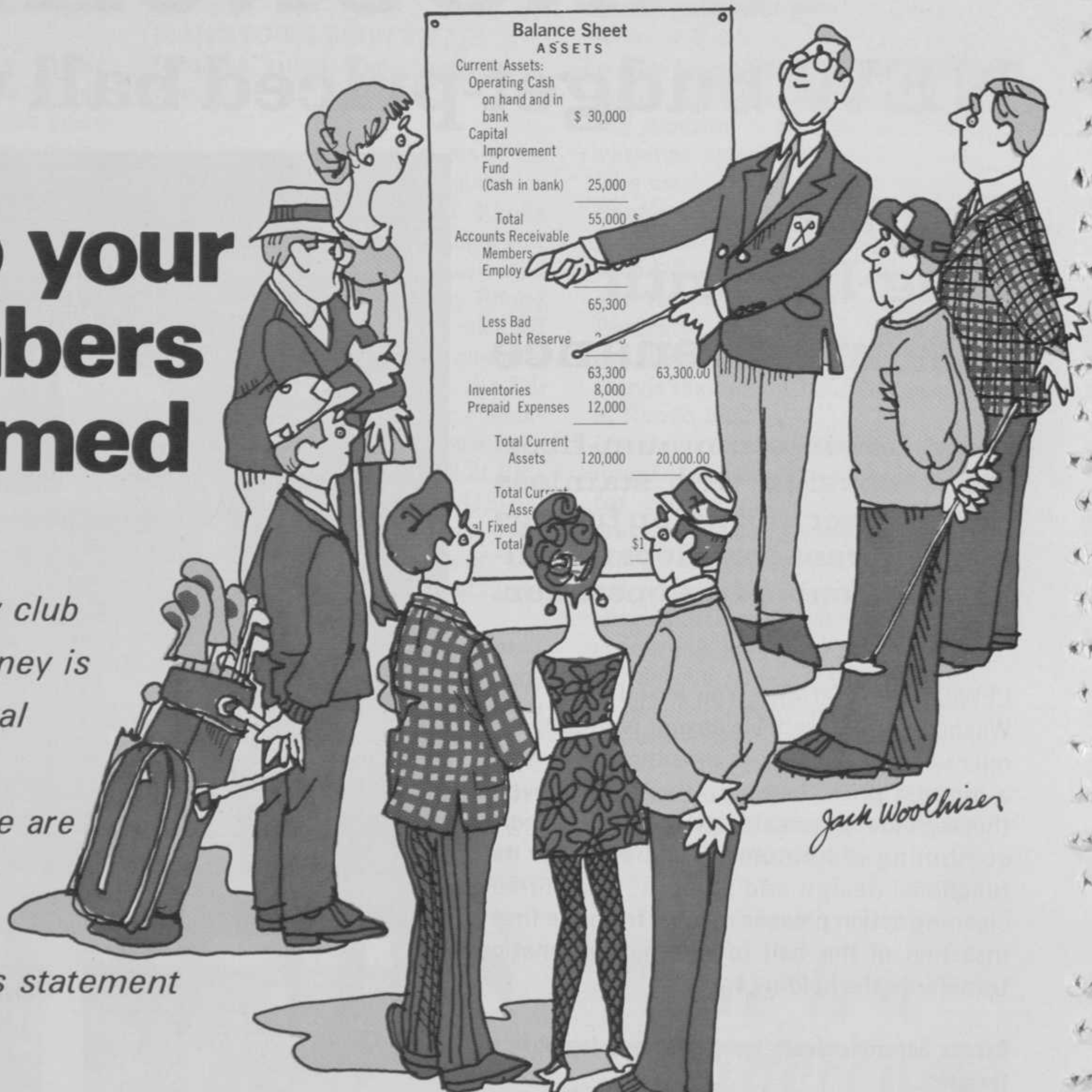

How a country club spends its money is naturally of vital concern to its members. Here are a few pointers on the annual Profit and Loss statement

By Joe Doan

Where does the money go? This is a question that is being universally asked today—down from the head of a corporation to the head of a family.

And, what with constant new assessments and rising club dues, the club member is no different. He wants to know how his club is spending his money.

Most country clubs keep their members informed of the club's financial status by issuing two annual statements—a Balance Sheet and Income and Expense Statement. At possibly one out of four or five clubs these are supplemented by reports showing a breakdown of departmental operations, application of funds statement and a statement showing capital improvements for the year.

Auditors and club accountants agree that the Balance Sheet and Income-Expense statement tell the average member of a club as much as he wants to know about how his club is faring financially and the supplementary information does little more than belabor the point.

A representative balance sheet, (see Figure 1), shows the financial status of an organization as of a given date by listing the value of its assets and the amounts of its liabilities. The difference between the two represents the net worth of the organization, with the members' equity in a club being included in this amount. In the case of the 45-year old Vallette Hill CC, the members' equity figure of $1,053,000 is not entirely representative or accurate.

If the club were to be sold it would bring at least $5,000,000 and the members' equity thus would be worth nearly five times what is shown on the club books at that time.

The $1,053,000 figure is in keeping with the established accounting principle that only what the members have paid into the club, plus any profits that have been incorporated in the net worth, should be shown in the Balance Sheet.

This principle is based on the assumption that the club plans to operate indefinitely as a country club and there is no interest in liquidation.

The counter entry in the Balance Sheet—the Fixed

Asset amount of $1,100,000—is not realistic, either. It could be shown as $5,000,000, the true market value of the club's land, buildings, etc., without really violating any accounting principles.

It would, of course, be offset by a corresponding increase in the amount of members' equity. The net result would be that the total assets and total liabilities plus members' equity would be considered higher than is shown in the present Vallette Hill CC Balance Sheet.

Practically all clubs keep their operating cash and capital improvements cash in separate accounts. Not too much cash is kept on the club premises due to the robbery problem.

Most clubs, of course, keep their operating cash in checking accounts. There is usually a heavy drain on it when a club re-opens in the spring, and in many cases it is necessary for the club to borrow money to meet its early season obligations.

In the last few years, quite a few clubs have turned to putting their surplus operating and improvement fund cash in 90-day Treasury notes so that it is quickly available and, at the same time, is earning interest while it is idle.

Vallette Hill's bad debt reserve of $2,000 is a permanent fixture in the Balance Sheet just in case some members default on their accounts. Bad debts, however, are quite effectively restricted by country clubs through the custom of posting or threatening to post names of delinquents.

The $8,000 Inventories account represents, for the most part, the food and liquor on hand in the beverage and restaurant departments.

Prepaid Expenses usually cover various insurance premiums that have been paid in advance, ordinarily for three years, and haven't yet been completely charged off. Taxes may fall into this account since they are usually paid ahead. Some clubs also include postage meter stamps as prepaid items if they have a large inventory of stamps on hand.

Under the Liabilities section of the Balance Sheet, clubs keep their long-and short-term obligations separate.

The $90,000 entry under Notes Payable represents a 15-year mortgage Vallette Hill is paying off to a local bank. Members are assessed a small amount each year to meet the annual mortgage payment.

The Equipment Notes Payable of $5,000 is for a fleet of golf cars that was purchased early in 1966.

Food and liquor, purchased for the restaurant and bar operations, and golf course and clubhouse supplies make up practically the entire total owed under Accounts Payable. *Continued on page 61*

Figure I
Vallette Hill Country Club
Balance Sheet
ASSETS

Current Assets:		
Operating Cash		
on hand and in bank	$ 30,000	
Capital Improvement Fund		
(Cash in bank)	25,000	
Total	55,000	$ 55,000.00
Accounts Receivable		
Members	65,000	
Employees	300	
	65,300	
Less Bad Debt Reserve	2,000	
	63,300	63,300.00
Inventories	8,000	
Prepaid Expenses	12,000	
Total Current Assets	120,000	20,000.00
Total Current Assets		138,300.00
Total Fixed Assets		1,100,000.00
Total Assets		$1,238,300.00

LIABILITIES AND MEMBERS EQUITY

Current Liabilities:	
Notes Payable-Bank-Capital	
Improvement Fund	$ 90,000
Equipment Notes Payable—	
Currently due	5,000
Accounts Payable	13,000
Employees' Payroll Deductions	3,000
Accrued Liabilities	
Salaries & Wages	7,000
Insurance	2,000
Taxes	12,000
Interest	700
Electric Golf Cars	600
Miscellaneous	500
Reserves-Employees, etc.	15,500
Total Current Liabilities	149,300
Long Term Liabilities:	
Equipment Notes Payable	
(not current due)	1,000
Total Liabilities	150,300
Members' Equity:	
Balance, October 31,1966	1,053,000
Add Capital Improvements	
Assessment (1966)	45,000
Debt Retirement	
Assessment (1965-66)	7,000
Total	1,105,000
Net Loss (Year ended	
October 31, 1966)	17,000
Total Members Equity	1,088,000
Total Liabilities and	
Members' Equity	$1,238,300

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The Reserves—Employees account usually represents gratuities collected or charged for dining room service but not yet paid to restaurant employees.

There is usually a one-to-two-week lag in settling these accounts. Reserves in this case also include money that is set aside each month by the club for employee Christmas bonuses.

The Equipment Notes Payable of $1,000 listed on the Vallette Hill Balance Sheet is for kitchen equipment purchased in June, 1966, and not due until the next accounting period.

Both the Capital Improvements and Debt Retirement assessments shown in the members' equity account represent money collected for these purposes but not yet disbursed. It is listed here because it actually belongs to the members until it is paid out.

The operating loss of $17,000 is deducted from the members' equity because in theory, at least, it reduces the members' claims on the club assets. The $17,000 lose, you will note, is picked up from the Statement of Income and Expense.

All items under Income in the Income-Expense Statement are more or less self explanatory. (See Figure II). The Operations Assessment is picked up from the previous year when the assessment charged members was $9,500 higher than the anticipated operating deficit. (See Figure II, next page).

Don't be confused by the fact that the department operations profit plus the income realized from dues, admission and guest fees, etc., is more than offset by the total expense of running the club.

Like the items under Income, most of the Operating Expenses are generally self-explanatory. Under Salaries and Wages the amounts charged to Administrative, Clubhouse, Grounds and Greens, and Tennis are for costs incurred by these operations and no others. Salaries and wages charged to the bar and restaurant, lockerrooms, driving range, and swimming pool are paid from income derived from

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Figure II
Vallette Hill Country Club
Statement of Income and Expense

Income:	
Dues	$120,000
Operations Assessment	9,500
Admission Fees	26,800
Guest Fees (golf)	17,500
Net Income from Department Operations	23,500
Electric Golf Cars	4,500
Miscellaneous	12,000
	$213,800
Operating Expenses:	
Salaries and Wages	
Administrative	$ 30,000
Clubhouse	5,000
Grounds and Greens	51,000
Tennis	2,500
Employees' Maintenance	1,500
Total Salaries and Wages	90,000
Payroll taxes	10,500
Real Estate, Personal Property Taxes	11,500
Power, light, heat, water	9,000
Telephone & Postage	8,200
Supplies	7,300
Maintenance and Repairs	25,500
Printing and Stationery	6,500
Audit Fees	1,000
Laundry and Cleaning	700
Depreciation	26,000
Prizes	2,600
Employees' Meals	12,000
Tournaments	3,000
Insurance	16,000
Miscellaneous Expense	1,000
	140,800
Total Operating Expenses	$230,800
Net Loss	17,000

these various operations and are shown in the separate and supplemental Statement of Department Operations.

At most clubs, expenses such as real estate and personal property taxes, light, heat, power, water, maintenance and repairs, audit fees, depreciation, employees' meals, insurance and miscellaneous expenses are charged direct to the club itself and not parceled, in all instances, to the various departmental operations.

Thus, the aforementioned Net Income from Department Operations of $23,000 isn't as high and dry as it first appears. If the restaurant at Vallette Hill, for example, were charged with taxes, insurance, etc. that rightfully could have been apportioned to it in 1966, the net profit of $4,500 which it made would have been somewhat reduced.

You will note that Vallette Hill

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charges off depreciation. This covers furniture, buildings, clubhouse and course equipment and other fixed assets. Many clubs don't carry a depreciation account. They either completely charge off a fixed asset when it is purchased or carry it as an asset that is reduced in value each year.

The government permits clubs to charge off employees' meals as low as 25 cents per meal for tax purposes, but many club accountants feel that for bookkeeping purposes the charge should be higher, perhaps 50 cents, so that the restaurant operation is credited with a more realistic amount.

Of the supplementary statements that clubs may or may not send to their members, the Statement of Department Operations elicits the most interest. In it, sales, service charges and fee income are shown for such departments as bar, restaurant, cigars and cigarettes, driving range, lockerrooms and swimming pool.

Expenses including cost of goods sold, salaries and wages, maintenance and repairs, laundry and cleaning, supplies and decorations, licenses, printing and mailing, miscellaneous, and at some clubs, fuel, water and electricity, are charged against gross income and a net profit or loss is determined.

Some accountants maintain that it is only fair that members should see a breakdown of how the various departments operate so that they know which ones are the luxury operations and which make a profit or at least pay their way.

Other accountants contend that the members could not care less. They are only interested in the Income-Expense Statement because it indicates the amount of the assessment in the coming year.

The Application of Funds Statement and Statement of Capital Improvements are basically summary reports which show how assessments have been used to retire debts or have been invested in capital improvements and equipment. Clubs that don't send these reports to members usually have them on hand in case anyone wants to inspect them. □