

The strangling club cost squeeze

Although fixed charges, generally, are unaffected by activity at the country club, they can vary—sometimes substantially

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The term "fixed charges" refers to those items of expense which, in the past at least, could generally be predetermined and provided for in the budget on a dollar basis from year to year, because they do not vary with an increase or decrease in activity.

In country clubs, the items of expense included in the term "fixed charges," as defined by the Uniform System of Accounts for Clubs, are rent, real estate and other property taxes, insurance on building and contents and inter-

est on debt. The dollar amounts of such items usually will be unaffected by the number of rounds of golf played on the course or the number of covers served in the dining room. However, these fixed charges can vary for other reasons from year to year, sometimes substantially.

Our firm has been preparing studies of country club operations annually for the past 19 years. The latest study was for the year 1967. I have used the statistics from three of these annual studies,

those for the years 1960, 1964 and 1967, as the basis for this article. The clubs providing the data for the accompanying tables have been divided into the following three groups:

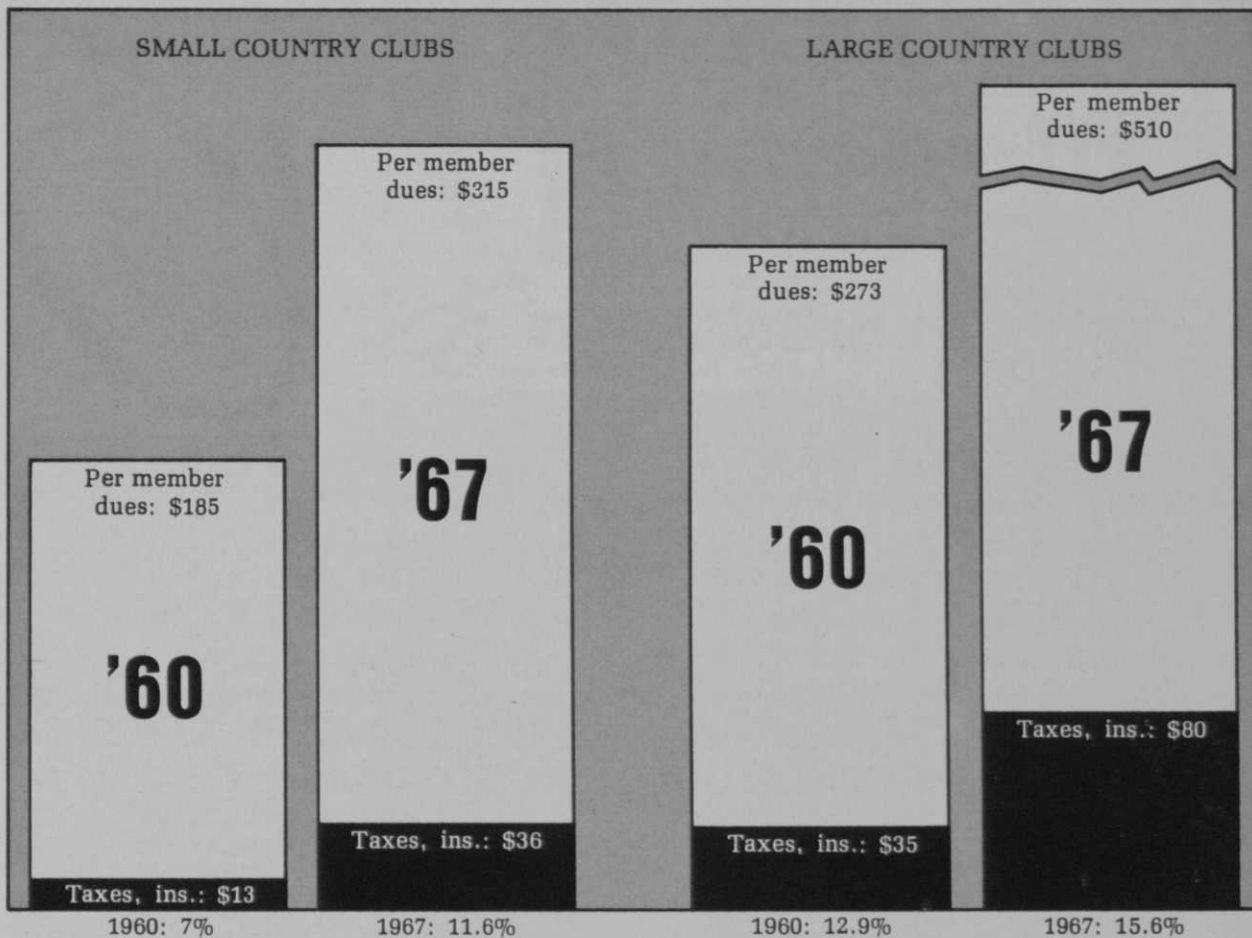
- Small country clubs—clubs with membership dues revenue of under \$100,000 in 1960, under \$125,000 in 1964 and under \$200,000 in 1967;

- Medium-size country clubs—clubs with membership dues revenue of \$100,000 to \$200,000 in

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TABLE 1

	Small country clubs Per member	Medium-size country clubs Per member	Large country clubs Per member
<u>1960 to 1964:</u>			
Percentage of dues dollar increase required to be allocated to:			
Taxes and insurance	43.3%	6.1%	23.7%
Total fixed charges	33.3%	33.3%	13.2%
<u>1964 to 1967:</u>			
Percentage of dues dollar increase required to be allocated to:			
Taxes and insurance	10.0%	19.4%	18.1%
Total fixed charges	23.0%	1.5%	22.1%
<u>1960 to 1967:</u>			
Percentage of dues dollar increase required to be allocated to:			
Taxes and insurance	17.7%	15.0%	19.0%
Total fixed charges	25.4%	12.0%	20.7%



How Taxes and Insurance Costs Have Increased as a Percentage of Member Dues

TABLE 2

	Small country clubs			Medium-size country clubs			Large country clubs		
	Dues	Taxes and insurance	Total fixed chrgs.	Dues	Taxes and insurance	Total fixed chrgs.	Dues	Taxes and insurance	Total fixed chrgs.
1960:									
Per member	\$185	\$13	\$30	\$272	\$32	\$47	\$273	\$35	\$48
Ratio to dues revenue	100.0%	7.0%	16.0%	100.0%	12.1%	17.4%	100.0%	12.9%	17.6%
1964:									
Per member	\$215	\$26	\$40	\$305	\$34	\$58	\$311	\$44	\$53
Ratio to dues revenue	100.0%	12.3%	18.8%	100.0%	11.8%	19.1%	100.0%	14.2%	16.9%
1967:									
Per member	\$315	\$36	\$63	\$372	\$47	\$59	\$510	\$80	\$97
Ratio to dues revenue	100.0%	11.6%	20.0%	100.0%	12.6%	15.8%	100.0%	15.6%	19.1%
Increases 1960-1967:									
1960-1964:									
Dollar	\$30	\$13	\$10	\$33	\$2	\$11	\$38	\$9	\$5
Percentage	16.2%	100.0%	33.3%	12.1%	6.3%	23.4%	13.9%	25.7%	10.4%
1964-1967:									
Dollar	\$100	\$10	\$23	\$67	\$13	\$1	\$199	\$36	\$44
Percentage	46.5%	38.5%	57.5%	22.0%	38.2%	1.7%	64.0%	81.8%	83.0%
1960-1967:									
Dollar	\$130	\$23	\$33	\$100	\$15	\$12	\$237	\$45	\$49
Percentage	70.3%	176.9%	110.0%	36.8%	46.9%	25.5%	86.8%	128.6%	102.1%

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1960, \$125,000 to \$200,000 in 1964 and \$200,000 to \$300,000 in 1967;

• Large country clubs—clubs with membership dues revenue of \$200,000 to \$400,000 in 1960, \$200,000 to \$500,000 in 1964 and \$300,000 to \$500,000 in 1967.

The amounts have been calculated on the basis of an arithmetical average of the total amounts of the item involved within the group, divided by the total number of members within the group. In addition to analyzing the effect of increasing costs of fixed charges on country club operations, I have also analyzed the main causes of those increases, namely, increases in real estate and other property taxes and insurance on building and contents.

A casual review of the ratios of taxes and insurance and fixed charges to dues revenue may not indicate any significant trend or startling increases in the cost of these items. However, this is far from being true with respect to dollar amounts. The portions of the increases in dues dollar required to cover the rises in these costs are summarized in Table 1.

As can be seen from the foregoing table, the percentages of the dues dollar increases have, in most cases, been somewhat greater than the ratios of these items to dues revenue, shown in Table 2.

In Table 2, I have presented the dues revenue, taxes and insurance expense and total fixed charges on an average-per-member bases and as ratios to dues revenue by club group for the years 1960, 1964 and 1967. Also, I have shown the dollar and percentage increases of these three items from 1960 to 1964, from 1964 to 1967 and from 1960 to 1967. Thus, Table 2 clearly indicates the amount of the dues dollar required to be allocated to taxes and insurance and total fixed charges and the extent to which the average increase in dues per member has kept pace with the average dollar increase in these expense categories.

In both Tables 1 and 2, it can be seen that the increases in taxes and insurance and total fixed charges have outweighed the increases in dues revenue. This is more startling when it is remembered that these types of charges usually are not expected to rise that much from year to year and also would be expected to decrease on a percentage bases, when dues revenue increases as substantially as it has lately. For instance, the ratio of taxes and insurance to dues revenue in large country clubs increased from 12.9 per cent in 1960 to 14.6 per cent in 1967. This increase occurred despite an increase of \$237, per member or because of an increase of \$45, or 128.6 per cent in taxes and insurance per member, which increase required 19.0 per cent of the \$237 dues increase. To have retained the 1960 ratio of 12.9 per cent would have required an increase of \$351 in dues revenue per member.

I do not believe that even these tabulations tell the whole story. Had these comparisons been made over a 15 year period, the results would have been even more astounding. Fifteen years ago, many clubs were on the outskirts of communities; the golf courses being surrounded largely by farm or unimproved real estate. However, the expansion of suburban areas has literally engulfed many clubs to the point that they are now occupying very expensive real estate. Also, in order to reduce the real estate tax burden, many clubs have sold off that portion of their land which was not actually needed for club operations. Thus, the changes in fixed charges might have been even more startling if a number of clubs had not sold some of their land.

What does the future hold? It is my opinion that these costs will continue to soar. Some clubs will attempt to relocate, others will finally accept the attractive price offers being made for the club property and liquidate, and others will simply pay the price of staying where they are. □