2020 NORTH AMERICAN EDITION

CLUBS

IN TOWN & COUNTRY

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Club Benchmarking
Participation · Knowledge · Success

A Publication of PBMares, LLP

CLUBS

IN TOWN & COUNTRY

Editor: Kevin F. Reilly, J.D., CPA
PBMares, LLP
12150 Monument Drive
Suite 350
Fairfax, VA 22033
Telephone: 703.385.8809
Telefax: 703.385.8890

Email: kreilly@pbmares.com

A Publication of PBMares, LLP.

PBMARES CLUB SERVICES TEAM

Baltimore, MD	Todd Levey	410.659.6200	televey@pbmares.com
Fairfax, VA	Helaine Weisman	703.385.8577	hweissman@pbmares.com
Fairfax, VA	Mary Dolan	703.537.7607	mdolan@pbmares.com
Harrisonburg, VA	Ed Yoder	540.434.5975	eyoder@pbmares.com
Morehead City, NC	Robert Bittner	252.638.5154	rebittner@pbmares.com
Richmond, VA	Todd Swisher	804.323.3347	tswisher@pbmares.com
Richmond, VA	Tommy Healy	804.323.3347	thealy@pbmares.com

Clubs in Town & Country is a statistical review incorporating operating and financial data on private clubs. Data for years ending in 2019 was submitted by approximately 600 clubs. To participate in the survey for years ending 2020, please contact Kevin Reilly at kreilly@pbmares.com.

We were pleased to tie in with Club Benchmarking (www.clubbenchmarking.com) again this year to produce our statistics. Their platform makes it easier to input the information, and the results were easier to generate. We hope to continue our partnership and be able to develop even more valuable information for clubs. You may notice a few changes to the publication. This is as a result of the COVID 19 virus which shrunk the number of participants.

This publication is designed as a reference and management or operational aid for private clubs. It should not be construed as setting standards on policies or actions for any private club or their professional managers. Readers are advised that PBMares does not represent the data contained herein to be definitive or all-inclusive. PBMares believes the information to be reliable, but is not responsible for errors in expenditure figures or in other reported source information.

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This 65th edition of CLUBS IN TOWN & COUNTRY incorporates operating results from private clubs from across the United States & Canada. We hope that club managers and officers find CLUBS IN TOWN & COUNTRY to be the useful analytical tool it was designed to be.

Trends in Club Membership

Kevin Reilly, J.D., CPA

When we first started looking at the numbers for 2019, we were very impressed. 2019 was a good year for the club industry. Spending per member was up and back to pre-recession levels. Membership continued to grow, but still at a very slow pace. Some of the premier clubs had waiting lists again. The economy in general, while good, showed a bigger divide between the haves and have nots and the income disparity increased. Clubs experienced the same trend. The premier clubs succeeded while many other clubs struggled.

Our survey of overall club membership for country clubs continues to show a stagnant membership base. The membership in country clubs stayed relatively consistent during 2019, increasing by 0.4%. City clubs were better in attracting new members over the last few years with a 1.2% increase in 2019.

One new trend we began tracking several years ago was the average full member turnover per year. This shows the number of new members clubs need to attract in order to stay constant. It also provides a barometer of expected funds coming in through initiation fees. Country clubs had a good year in 2019 with a full member turnover rate of 5%. City club member turnover remained constant with a turnover percentage of approximately 8%. It will be interesting to see what happens in 2020.

Then 2020 hit. The advent of the COVID-19 virus decimated clubs for quite a while. Clubs were forced to close, started to pick up over the summer and with the increase in the number of COVID-19 cases in the fall, some states are starting to pull back again. While the stock market is strong, the economy is not. Hospitality is the most directly impacted industry. From restaurants closing and hotels and airlines being impacted by a lack of travel, no one was spared. Clubs are no exception.

The club industry needed to adapt and, all things considered, did so fairly well. City clubs were impacted the most not only because they had to close, but also because there was no one working downtown to use them even if they could reopen. In addition, much more of a city club's revenue comes from non-dues sources which are directly impacted by the closure. Also, since, in most cases, the cost to join a city club is not as much as much as a country club, members are more willing to drop the membership. Business are revisiting the need for maintaining a membership in a club if much of the workforce is working remotely.

Country clubs on the other hand receive around half of their revenue from dues. This source of funds remained consistent during the shutdowns and reduced service. While every state was different, a number of states did allow golf and other outdoor activities. It was easier, although not easy, for country clubs to establish remote methods of serving their members. This included everything from food to go to online bridge clubs to remote committee meetings. It is interesting to note that for the successful clubs, they may have more touches with their members in 2020, although remotely, than in a normal year. In fact, one city club mentioned that the club was interacting with its members more than they ever had and that non-resident member participation increased dramatically.

As the summer progressed and clubs were given more flexibility, many became a haven for their members. Rounds were substantially up in June and July and other outdoor activities took off. A number of clubs operated summer camps and many of the spa classes moved outside.

Over the last few years, clubs had finally started to acknowledge that the food and beverage department should be treated as an amenity, no different than golf, tennis or fitness. Boards started to operate more strategically and the unreasonable focus on the bottom line was tempered. However, boards still pay too much attention to the numbers in this department. Generally there is at least one board member who believes he or she could do a better job running the department. For 2019, the net loss for the department in country clubs was 18.5%, a slight increase from the 2018 loss. For city clubs, the numbers improved, resulting in a loss of

continued

Trends in Club Membership *(continued)*

11%, a two percent improvement over 2018. It is expected that the net loss for both city and country clubs for 2020 will go down. However, the revenue from the department will be substantially less.

Food service took on a whole new look, hence the cover of the book. Food does connect us and the lack of or reduction in in-person dining has a great impact on the interaction among members and the bottom line. Clubs continued with food to go and added additional outside dining. Clubs have gotten creative with events that were popular in the past with members. They moved some functions outdoors to unique settings such as the driving range and came up with some very creative ways to interact with the children of members on Halloween. Many clubs reported serving more Thanksgiving dinners than ever, but they were generally of the to-go variety. As far as the holidays are concerned, "Breakfast with Santa" is being replaced with a drive through experience with Santa behind Plexiglas and staff members singing carols.

Members still are unwilling to eat indoors, so it will be interesting to see the impact moving forward as the weather worsens. Clubs in the northern regions are gearing up for a difficult winter with fewer outdoor activities, no large holiday parties and members who are getting tired of all the restrictions. 2020 would have been the year to invest in a company making outdoor heaters.

The picture of the club industry continues to evolve. In the past, we have talked about the importance of a club remaining relevant to its members. How does it adapt to a changing demographic with millennials now representing the largest age group in the United States? COVID-19 has accelerated this process. How do clubs go after women, juniors and those who neither play golf on a regular basis nor grew up in a club environment?

The National Golf Foundation has indicated that the number of females, juniors and other young adults playing golf has remained consistent over the last five years. While the category of young adults is the largest age segment in golf, more than 40% of this group are only off-course participants. What can the industry offer to bring these young adults into the club community? Generally, the successful clubs are those that address this issue creatively. Clubs have become more family friendly over the years and realize they must continue to evolve and change if they are to be successful. Again, with potential members travelling less, it could be an opportunity for a club to expand its base.

Budgeting in the age of COVID-19 has been and will continue to be an interesting exercise. When will clubs recover from the poor economy and how many different budget scenarios are needed depending on the recovery? The resurgence of COVID-19 and the continued restrictions on usage have already caused many clubs to revise their budgets once again. And with all parts of the country reporting higher death counts and positive cases, even with the vaccine, the restrictions will continue well into 2021.

We think it is important to reflect on how the year started and as a result have published a limited edition of *Clubs in Town & Country.* While 2020 will not be close to these numbers, it does provide you a baseline and some hope moving forward. We will publish a new *Clubs in Town & Country* in early 2021 which will provide an analysis of the latest information for 2020. Clubs need to be very adaptable and find out what their members want, what they are willing to pay for and then provide those services in a truly outstanding manner. Moving forward, successful clubs will be an oasis for their members and the ones that do it the best will succeed. ■

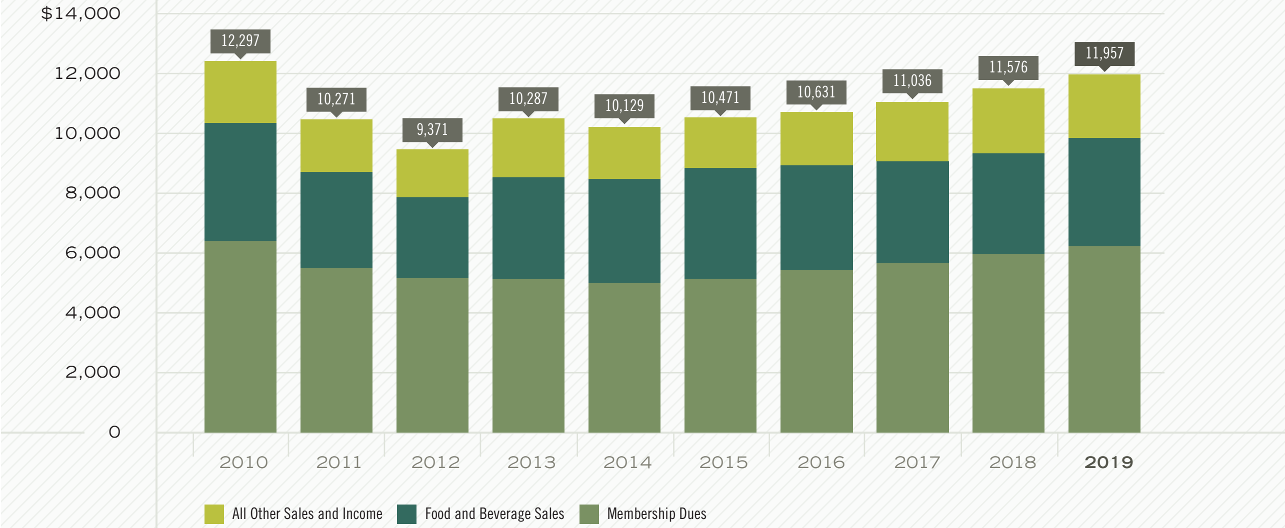
SOURCE OF INCOME PER MEMBER

YEAR	Membership Dues	Food and Beverage Sales	All Other Sales and Income	Total Revenue
2000	$3,063	$2,444	$2,964	$8,471
2001	$3,787	$2,784	$2,104	$8,675
2002	$4,429	$3,043	$1,895	$9,368
2003	$5,116	$2,970	$2,255	$10,341
2004	$5,830	$3,366	$2,559	$11,755
2005	$6,182	$3,535	$3,023	$12,740
2006	$6,394	$3,459	$3,090	$12,943
2007	$6,613	$3,708	$3,051	$13,371
2008	$6,032	$3,700	$2,849	$12,581
2009	$6,656	$3,491	$2,553	$12,700
2010	$6,658	$3,542	$2,097	$12,297
2011	$5,744	$2,760	$1,767	$10,271
2012	$5,244	$2,560	$1,567	$9,371
2013	$5,224	$3,166	$1,897	$10,287
2014	$5,140	$3,087	$1,902	$10,129
2015	$5,351	$3,309	$1,811	$10,471
2016	$5,474	$3,233	$1,912	$10,619
2017	$5,662	$3,399	$1,975	$11,036
2018	$5,998	$3,390	$2,188	$11,576
2019	**$6,348**	**$3,606**	**$2,003**	**$11,957**

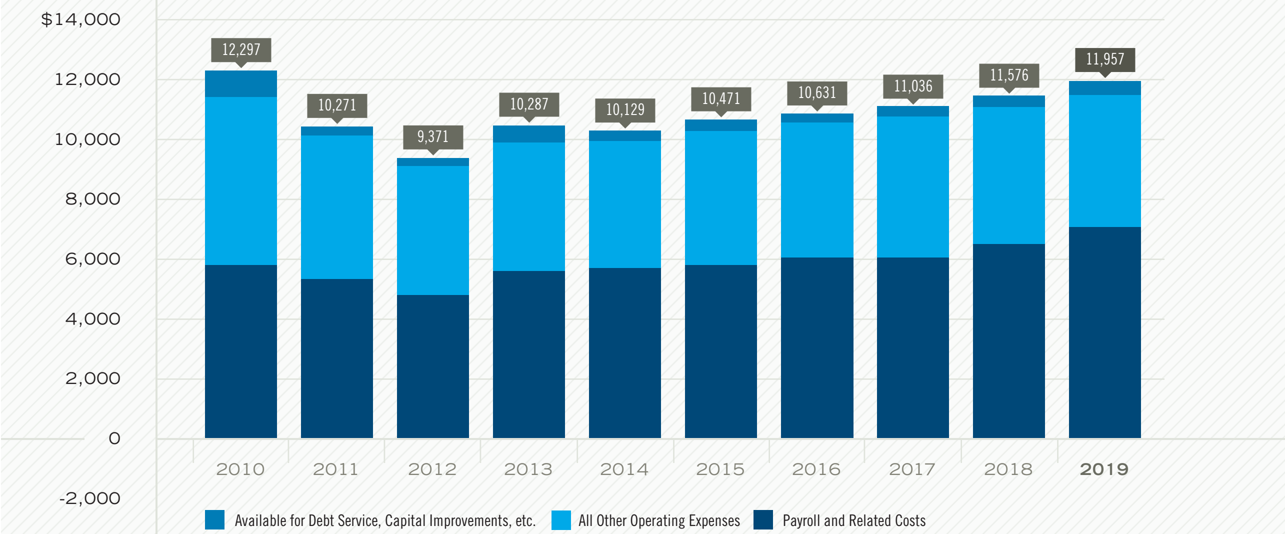
DISPOSITION OF INCOME PER MEMBER

YEAR	Payroll and Related Costs	All Other Operating Expenses	Total Costs and Expenses	Available for Debt Service, Capital Improvements, etc.
2000	$3,833	$6,166	$7,999	$472
2001	$3,937	$4,523	$8,460	$215
2002	$5,373	$4,621	$9,994	-$626
2003	$5,740	$5,043	$10,784	-$442
2004	$6,566	$5,672	$12,238	-$483
2005	$6,978	$5,922	$12,900	-$160
2006	$6,943	$6,310	$13,253	-$309
2007	$7,093	$6,405	$13,498	-$127
2008	$6,195	$6,228	$12,423	$158
2009	$6,795	$6,282	$13,077	-$377
2010	$6,028	$5,628	$11,656	$641
2011	$5,547	$4,606	$10,153	$118
2012	$4,947	$4,306	$9,253	$118
2013	$5,694	$4,071	$9,765	$522
2014	$5,667	$4,109	$9,776	$354
2015	$5,976	$4,229	$10,205	$266
2016	$6,098	$4,481	$10,579	$40
2017	$6,172	$4,748	$10,920	$116
2018	$6,474	$4,711	$11,185	$391
2019	**$7,008**	**$4,224**	**$11,232**	**$725**

COUNTRY CLUBS



INCOME PER MEMBER
OPERATING COST PER MEMBER
2019



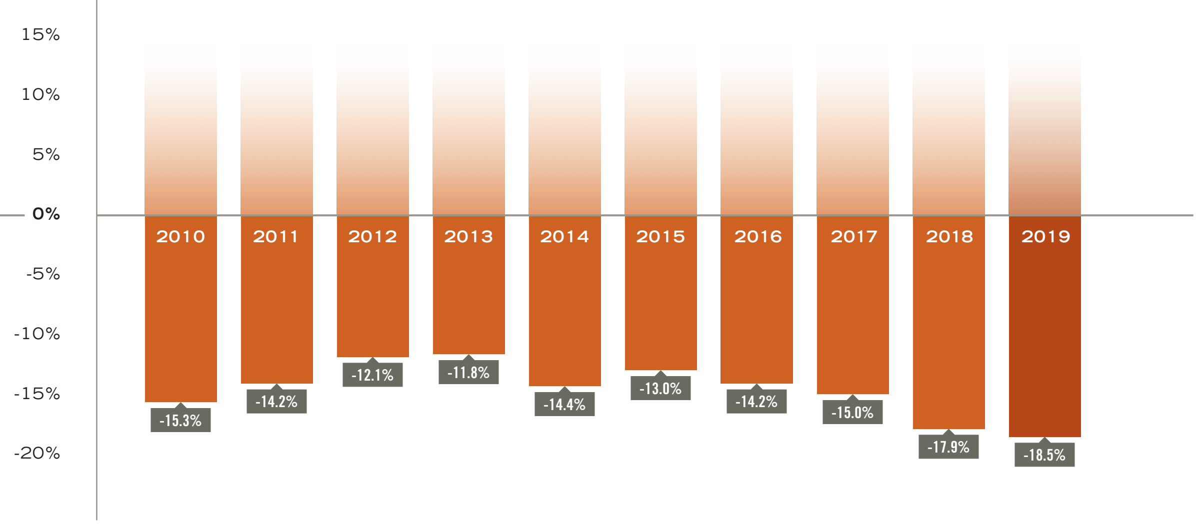
RESULTS OF OPERATIONS BY SIZE

		SIZE (MEMBERSHIPS)		
	All Country Clubs	Less than 500	500 to 700	More than 700
RATIO TO TOTAL INCOME				
SALES AND INCOME				
Operating Membership Dues	53.1%	55.9%	51.7%	53.1%
Food and Beverage	30.1%	26.3%	32.9%	29.2%
Golf	13.3%	15.4%	12.1%	12.7%
Sports	1.9%	1.0%	1.4%	3.5%
Other	1.6%	1.4%	1.9%	1.5%
→ **Total Income**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
DEPARTMENTAL EXPENSES				
Food and Beverage	34.3%	32.2%	36.0%	33.3%
Golf	27.3%	33.7%	26.3%	26.4%
Sports	4.9%	2.5%	4.2%	6.8%
→ **Total Departmental Expenses**	**66.5%**	**68.4%**	**66.5%**	**66.5%**
LESS UNAPPORTIONED EXPENSES				
General and Administrative	12.0%	13.4%	12.0%	11.3%
Buildings	10.2%	9.9%	9.9%	10.3%
Real Estate, Property Taxes and Insurance	5.2%	5.7%	5.5%	4.5%
→ **Total Unapportioned Expenses**	**27.4%**	**29.0%**	**27.4%**	**26.1%**
→ **Total Expenses**	**93.9%**	**97.4%**	**93.9%**	**92.6%**
→ **Balance**	**6.1%**	**2.6%**	**6.1%**	**7.4%**

RESTAURANT OPERATIONS BY SIZE

		SIZE (MEMBERSHIPS)		
	All Country Clubs	Less than 500	500 to 700	More than 700
FOOD AND BEVERAGE DEPARTMENT				
Food Sales	100.0%	100.0%	100.0%	100.0%
Food Costs	42.0%	42.0%	42.0%	42.0%
→ **Food Gross Profit**	**558.0%**	**58.0%**	**58.0%**	**58.0%**
Beverage Sales	100.0%	100.0%	100.0%	100.0%
Beverage Costs	33.5%	33.4%	35.0%	34.0%
→ **Beverage Gross Profit**	**66.5%**	**66.6%**	**65.0%**	**66.0%**
Total Food and Beverage Sales	100.0%	100.0%	100.0%	100.0%
Total Cost of Food and Beverage Sales	39.4%	39.1%	40.0%	40.0%
→ **Total Food and Beverage Gross Profit**	**60.6%**	**60.9%**	**60.0%**	**60.0%**
Payroll (Salary and Wages)	57.0%	58.8%	56.0%	57.0%
Payroll Taxes and Benefits	11.9%	11.3%	12.0%	12.0%
Other Expenses	10.2%	10.3%	10.0%	10.0%
→ **Total Expenses**	**79.1%**	**80.4%**	**78.0%**	**79.0%**
→ **Net Income (Loss)**	**(18.5)%**	**(19.5)%**	**(18.0)%**	**(19.0)%**

FOOD & BEVERAGE PROFITABILITY



MEMBERSHIP DATA AND PAYROLL STATISTICS BY SIZE

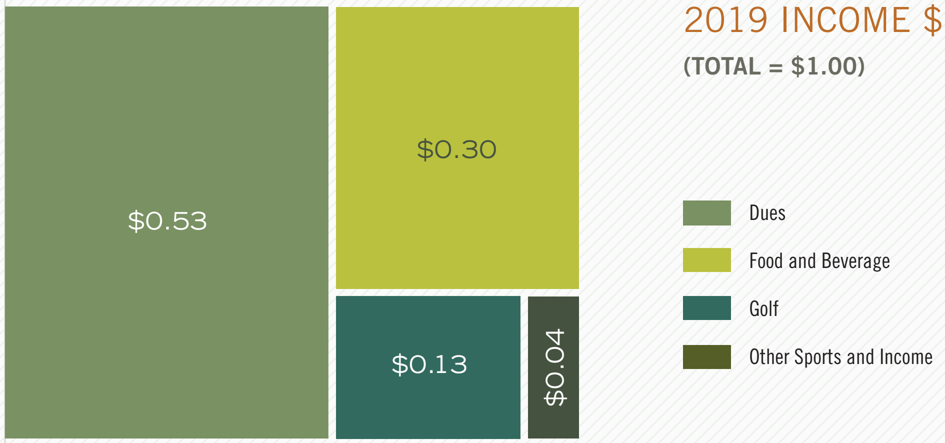
		SIZE (MEMBERSHIPS)		
	All Country Clubs	Fewer than 500	500 to 700	More than 700
MEMBERSHIP DATA				
Full Membership Turnover Percentage	5.2%	6.1%	6.3%	4.4%
Variation in Membership	0.4%	0.9%	0.2%	0.3%
Average Annual Dues Rate				
Current Year	$8,899	$10,100	$9,120	$8,603
Prior Year (from prior Trends report)	$8,520	$9,660	$9,000	$7,800
PAYROLL STATISTICS				
Payroll Statistics per All Operating Revenue Excluding Dues				
Food and Beverage	34.9%	33.3%	37.0%	34.0%
Golf Operations	30.5%	36.7%	29.0%	28.0%
Sports	5.6%	3.0%	5.0%	9.0%
→ **SubTotal**	**71.0%**	**73.0%**	**71.0%**	**71.0%**
→ **All Other Departments**	**23.2%**	**24.2%**	**23.0%**	**23.0%**
→ **Total Club Payroll**	**94.2%**	**97.2%**	**94.0%**	**94.0%**
Total Payroll Tax and Benefits	19.0%	19.0%	20.0%	20.0%
→ **Total Payroll and Related Costs**	**113.2%**	**116.2%**	**114.0%**	**114.0%**

ANNUAL OPERATING COST PER MEMBER BY SIZE

		SIZE (MEMBERSHIPS)		
	All Country Clubs	Fewer than 500	500 to 700	More than 700
INCOME AND EXPENSES PER MEMBER				
SALES AND INCOME				
Operating Membership Dues	$6,348	$7,612	$6,480	$6,193
Food and Beverage	$3,606	$3,588	$4,133	$3,399
Golf	$1,593	$2.092	$1,524	$1,487
Sports	$223	$142	$172	$406
Other	$187	$190	$235	$179
→ **Total Income**	**$11,957**	**$13,624**	**$12,544**	**$11,664**
DEPARTMENTAL EXPENSES				
Food and Beverage	$4,106	$4,383	$4,514	$3,887
Golf	$3,266	$4,585	$3,298	$3,081
Sports	$582	$345	$531	$788
→ **Total Departmental Expenses**	**$7,954**	**$9,313**	**$8,343**	**$7,756**
LESS UNAPPORTIONED EXPENSES				
General and Administrative	$1,441	$1,832	$1,504	$1,315
Buildings	$1,214	$1,345	$1,240	$1,204
Real Estate, Property Taxes and Insurance	$623	$773	$698	$522
→ **Total Unapportioned Expenses**	**$3,278**	**$3,950**	**$3,442**	**$3,041**
→ **Total Expenses**	**$11,232**	**$13,263**	**$11,785**	**$10,797**
→ **Balance**	**$725**	**$361**	**$759**	**$867**

2019 INCOME $

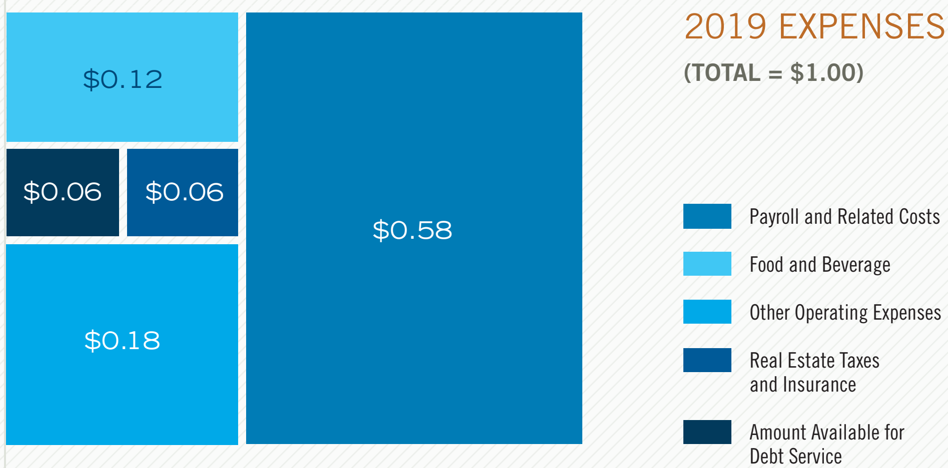
(TOTAL = $1.00)



COUNTRY CLUB INCOME AND WHERE IT WENT 2019

2019 EXPENSES $

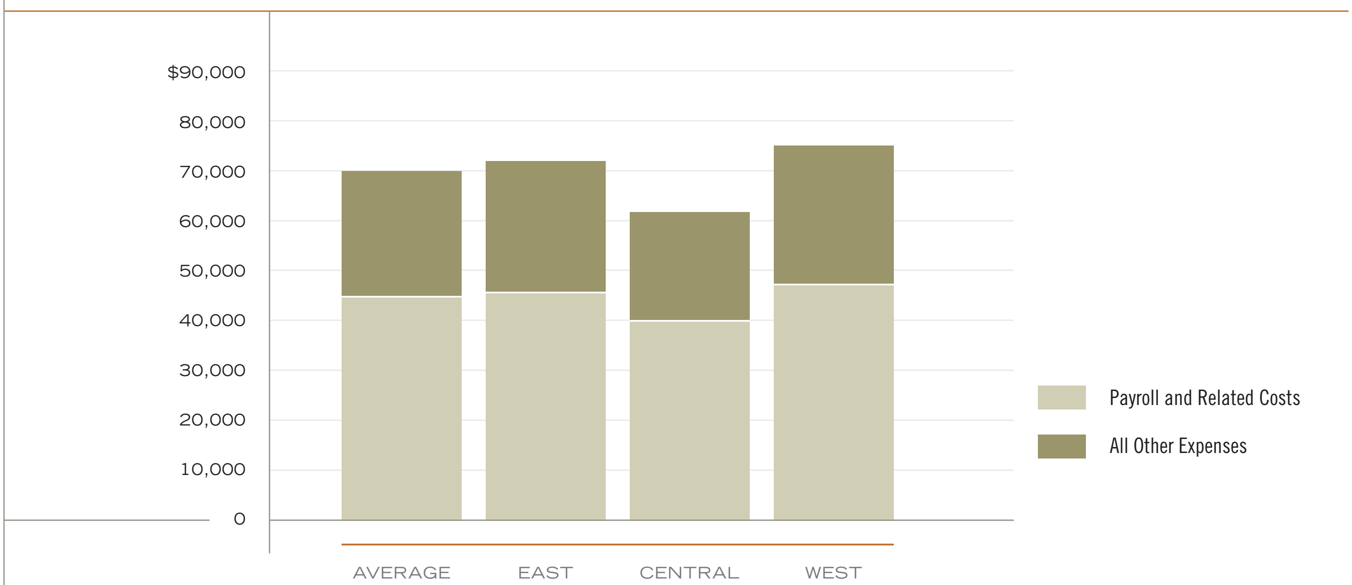
(TOTAL = $1.00)



GOLF COURSE EXPENSES BY SIZE

	All Country Clubs	SIZE (MEMBERSHIPS) Fewer than 500	500 to 700	More than 700
COURSE MAINTENANCE				
AVERAGE COST PER HOLE				
Salary and Wages	$37,558	$34,463	$36,308	$40,998
Payroll Taxes and Benefits	$7,415	$6,035	$7,332	$8,243
Supplies and Contracts	$15,104	$13,960	$14,624	$16,389
Other Expenses	$9,591	$9,022	$9,563	$10,641
→ **Total Expenses**	**$69,668**	**$63,480**	**$67,827**	**$76,271**
AVERAGE COST PER ROUND				
Salary and Wages	$38	$42	$38	$37
Payroll Taxes and Benefits	$7	$7	$8	$7
Supplies and Contracts	$15	$17	$15	$15
Other Expenses	$10	$11	$10	$10
→ **Total Expenses**	**$70**	**$77**	**$71**	**$69**
Average Rounds per 18 holes	17,894	14,750	17,420	20,126
Rounds Played in 2019	21,022	15,347	18,923	26,011
Rounds Played in 2018	21,300	15,540	19,500	26,014
	(1%)	(1%)	(3%)	0%

AVERAGE COST PER HOLE IN 2019



Golf Course Expenses

Helaine S. Weissman, CPA

Total golf course expenses in 2019 were approximately 3% higher than in 2018. The cost was a little higher than $69,600 per hole. The West continued to lead the way in this area with its costs just under $3,000 higher per hole than the East and $13,000 higher than the Central region. The cost per hole is still dependent on many variables which often are region specific. The demand for golf in the West continued to account for much of the differences noted. The West had over 43% more rounds per 18 holes than the other two regions. In fact, both the East and Central regions had a decrease in rounds for 2019.

2020 will change all of these numbers. Most clubs are reporting a large surge in golf rounds. In fact, many still are not allowing guests because of such high member use of the courses. Although golf revenue may be up, the lack of guest usage and outside outings may offset some of the increase. Additionally, the areas of the country where golf cannot be played year round are still bracing for a further impact and hoping for a warm December and an early spring. In addition, if members are not at the course, will they consider coming back to dine or grab some carryout food? As a result, clubs are having to significantly revise their budgets to cut expenses. To complicate matters, the increase in the number of COVID-19 cases and the concern of a spike over the holidays may result in a further impact throughout 2021.

While members are using the club, many general managers are grappling with getting members on board with the new rules. It is especially important for the Board to support club management in enforcing these rules.

Golf Datatech shows play was up almost 14% in June following a 6.2% bump in May. The question remains – will this be enough to make up for the more than 20 million spring golf rounds that were lost due to COVID-19 related closures and anxiety as reported by The National Golf Foundation?

SOME INTERESTING TRENDS

- Golf travel is starting to happen again, but many people are rethinking those plans for the foreseeable future. Rather than getting on a plane for some far away destination, golf vacations are happening more within a three-hour driving radius.
- People working from home are finding the time to slip out during the day to play nine holes.
- Golf equipment sales set record highs in July.
- Golf seems to fit the bill as people across the globe are searching for a relatively safe way to socialize (at a distance) and be active.

Enrique C. Brito, CFA, CVA, CM&AA

Club Management in the Era of COVID-19

Dealing with Cash Flow Challenges

The rapid spread of COVID-19 has sparked a health and economic crisis affecting most industries worldwide. In the hospitality industry, the impact has been particularly sudden and severe. People are abandoning travel and recreation plans and sheltering in place as government officials around the world attempt to "flatten the curve."

As a result, every sector of the hospitality industry, from restaurants to resorts to private clubs, are adapting to the "new normal" and functioning in ways more conducive to regaining their customers' trust and business. The duration of the virus has called into question many practices routinely conducted by a club.

While the focus on making customers feel safe will continue for the foreseeable future, the implications for business sustainability and growth in the hospitality industry require immediate action. In other words, businesses need to figure out ways to stay afloat during an economic downturn where no blueprints exist, and fast.

The question becomes how to meet financial obligations while dealing with the rapidly expanding social distancing requirements and public safety protocols. In the private club sector, general managers and boards need to make every effort to make data-driven decisions to ensure the financial stability of their clubs.

This means fine-tuning their operating budgets with insights provided by various analytical tools and assessing the potential impact of changing economic conditions caused by the COVID-19 pandemic. Key metrics such as net new members, member dues, club fees, operating expenses and debt service obligations must be reassessed under "new normal" assumptions to determine and stress-test a club's short-term liquidity.

Minimizing Liquidity Risk

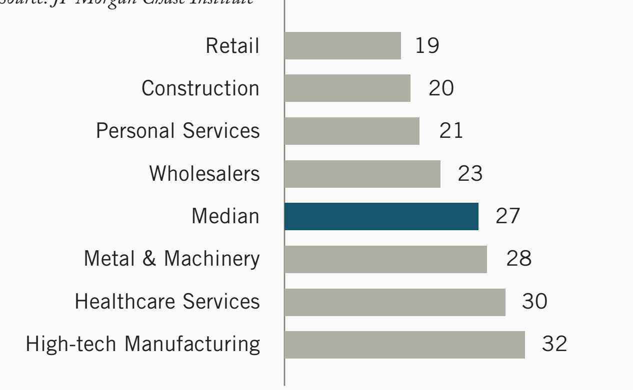
As the COVID-19 pandemic continues, one of the most immediate threats to most private clubs is liquidity risk - the inability to meet short term obligations. Unlike other industries, businesses in the hospitality sector depend on the continued patronage of members to generate cash flow.

Many private clubs only have a small cash buffer to manage cash fluctuations. And, in private clubs, any change in the collection of member dues and activity fees (e.g. golf) can have a severe impact on the club's operating budget as these two sources of income tend to cover most fixed operating expenses. This has a much greater impact on city clubs than country clubs because a much greater percentage of a country club's revenue comes from dues which does not fluctuate as much.

The JP Morgan Institute recently conducted a study that revealed small and mid-sized businesses (SMBs) have a median of 27 days of cash reserves on hand, which means that in the absence of cash flows, they can only pay expenses for less than a month.

Median SMBs Cash Buffer Days in Reserve

Source: JP Morgan Chase Institute



Private clubs and golf communities have been hit hard with unexpected operational deficits due to local shelter-in-place orders and the need for social distancing. At the same time, clubs are still carrying payroll, although at a reduced amount, while implementing safety measures that require additional expenses on top of fixed operating expenses.

To minimize the negative financial impact of COVID-19, private clubs needed to develop a medium-term liquidity plan

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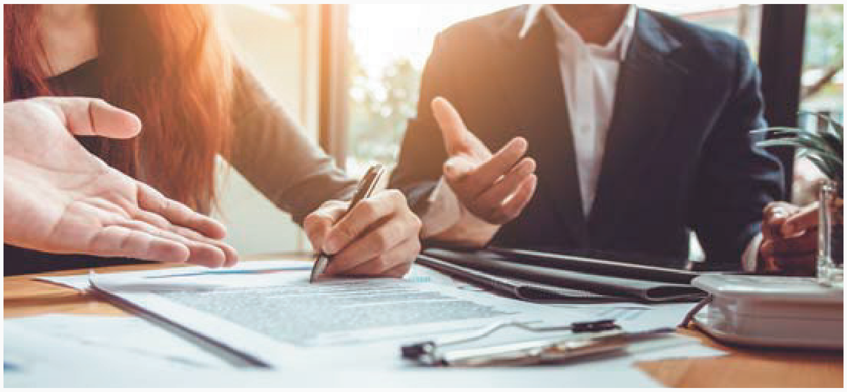


to manage the increasing risk of experiencing financial distress. As the virus and restrictions continue, this needs to turn into a longer term plan. The goal is twofold: (1) extend the club's cash reserves and (2) avoid selling assets below their fair market value.

What Is a Liquidity Plan?

A liquidity management plan is a set of strategies and processes that minimize the risk of not being able to meet short term obligations. Developing such a plan involves conducting a systematic review of the key areas affecting the private club's cash flows such as member dues, golf fees, staff wages and other fixed operating expenses. These reviews, in turn, provide the insights needed to make decisions that will accelerate cash inflows, justify cash outflows, and implement operational dashboards with metrics to provide timely feedback on the club's liquidity position.

At a high level, a comprehensive liquidity management plan has six components:

1. 13-week cash flow forecast to get a more granular view on the club's cash inflows and outflows (along with their underlying assumptions) under different scenarios.
2. Accounts receivable management plan to review existing credit policies related to member dues and initiation fees and monthly charges (particularly for new members) and accelerate cash collections.
3. Accounts payable management plan to identify critical suppliers and vendors (such as food and beverage) and evaluate how to extend payment terms by negotiating terms and conditions whenever possible.
4. Funding options analysis to identify funding alternatives such as adequacy of cash reserves, debt refinancing or additional credit support from banks, or participating in government-sponsored programs such as PPP.
5. Liquidity dashboard to monitor key liquidity metrics such as liquidity ratio, days sales outstanding, days payable outstanding, and interest coverage ratio.
6. Liquidity contingency plan to determine specific thresholds and the actions that these thresholds would trigger, such as expense reduction plans, expenditures approvals, and funding mix targets.

At every organization, whether a corporation or a 501c7 private equity country club, cash is the lifeblood of the business. It is a very valuable resource that requires careful management under normal conditions and timely intervention in crisis situations. This requires management to first stabilize the situation by developing a liquidity management plan as outlined above to control the cash bleed, inject much needed resources, and monitor the situation on a weekly basis. In addition, it is important to include an assessment of how circumstances are likely to play out in the short term. This is where a well-documented cash flow analysis comes into play (as described below).

Anticipating Cash Inflection Points

A good cash flow forecast is one of the most important elements of a liquidity management plan. Making projections about cash inflows and outflows, supported by well-documented assumptions, is a very effective tool in diagnosing possible cash pressures. In turn, this allows management to develop action plans to avoid or mitigate the impact of potential cash shortages. Cash flow forecasts also help to guide business decisions that lead to more efficient operations by optimizing the management of working capital.

An effective cash flow forecast usually involves a rolling 12-month analysis of cash inflows and outflows and consists of three main components: key assumptions, operating projections (income and expenses) and a cash flow model (cash inflows, outflows, and running balance).

In terms of key assumptions, some of the parameters to consider include projections for the next year on a monthly or quarterly basis involving revenue growth, gross margins, operating margins, working capital, capital expenditures and taxes. In formulating these assumptions, it is also important to develop two scenarios: business as usual and worst case. This provides a more realistic perspective on potential operating outcomes for the organization.

The second component of the cash flow forecast involves translating the assumptions into operating projections. This takes the form of a typical income statement (a.k.a. profit and

continued

loss statement) for the next 12 months. Operating projections give club managers and the Board a good idea of how the assumptions play out in each of the two scenarios, while also allowing for adjustments to the assumptions as needed.

The last component involves the cash flow model, which translates the club's projected operations developed in the income statement into expected cash inflows and cash outflows while keeping a running total of the cash available. It is this running total of the monthly cash balance that will alert potential cash shortages with enough lead time to take corrective action. As managers see the effects of the operating assumptions in the business operating performance and cash balances, look for clues about what specific actions should be taken to avoid or mitigate impending cash flow pressures.

To facilitate the thought process behind the creation of an effective cash flow forecast, here are some important questions to consider:

- What will the economic environment look like for each of the next four quarters?
- What is the likely zero-cash date under the worst-case scenario?
- What fixed costs and expenses (sales, marketing, and general) can be postponed, restructured or optimized?
- What potential sources of capital are available? (e.g. lenders, vendors, investors)

Leveraging What Works

The process of developing a liquidity plan needs to be fluid in the sense that it must respond quickly to changing circumstances. This is not easy, as data collection and analysis rarely happen in real time, making the planning process more an art than a science. Nevertheless, there are several best practices that will help clubs adapt to changing circumstances and improve their ability to extend cash reserves. Some of these best practices include:

- Focus on short-term (13 weeks) and medium-term forecasting (one year).
- Automate the process as much as possible.
- Analyze forecast vs actual variances to calibrate assumptions.
- Develop a forecast model driven by key metrics and then assign accountability for targets associated with each of those metrics.
- Regularly share cash forecasts and performance information with lenders to encourage their support in lean times.

Finally, it is helpful to think about the future in terms of probabilities and not certainties. This will prompt a consideration of different values for the key assumptions driving the liquidity plan. The result will be different possible scenarios. A robust financial analysis including a liquidity management plan and cash flow forecast will increase the club's resiliency and improve managers' ability to make informed decisions under difficult conditions.

Navigating the New Normal

The COVID-19 pandemic has accelerated many trends that have been bubbling up for a while in the hospitality industry, while also creating a "new normal."

In navigating this new territory, make sure to engage with club members and staff on a regular basis. In times of crisis it is better to over communicate than to go silent. In fact, there is a simple yet effective three-step communication approach that will help you develop trust with your staff and membership base: (1) communicate what you know, (2) communicate what you don't know, and (3) communicate when you will provide more information.

Lastly, keep in mind that the primary goal during these turbulent times is to develop a deep understanding of the club's cash flow requirements in the short and medium term. This will help the club stay operational until business picks up again and extend cash reserves as much as possible. ■

About the Author

Enrique C. Brito, MBA, CFA, CVA, CM&AA is a managing director of Transaction Advisory Services at PBMares, LLP. He has over 25 years of corporate finance and investment banking experience and lectures nationally on the subjects of M&A, business strategy and negotiation. He can be reached via e-mail at ecbrito@pbmares.com or call (804) 977-5051.

Edward T. Yoder, CPA, MSA

New Regulations for UBTI Will Impact Private Clubs

How could a change in the tax law passed in 2017 have a substantial impact on clubs today? Given the recent business disruptions caused by COVID-19, unrelated business income might not seem like a big deal. However, after the IRS issued final regulations on December 2, 2020, unrelated business taxable income (UBTI) will be computed differently and potentially generate unrelated business income tax. All clubs and tax-exempt organizations will need to re-evaluate their accounting and tax strategies moving forward.

NEW UBTI FOR CLUBS

There are two primary reasons why new regulations for unrelated business taxable income require the immediate attention of club owners and operators. First, because the changes may make more of the unrelated business income a club has taxable. And second, because the generally accepted interpretation of the regulations is that clubs and other exempt organizations may be expected to comply with final regulations quickly – the first year after they're published. This means that clubs will need to be in compliance for tax years beginning after December 2, 2020.

The new regulations apply to all exempt organizations; however, clubs have a unique tax treatment. Under the proposed rules, unrelated business taxable income covers all gross income, except for exempt function income. Unlike other exempt organizations, clubs cannot exclude investment income such as dividends, interest, or rents and must include this income as UBTI. So for clubs, UBTI is essentially all gross income, minus deductions directly connected with producing that income, except for exempt function income.

There is no de minimus rule, which means there is no threshold under which the new UBTI rules wouldn't apply. During the initial commenting period, a de minimus rule was requested that would have exempted organizations from the new rules if their UBTI was less than $100,000. This comment was disregarded because the IRS considered its other changes, such as switching to a 2-digit NAICS code instead of a 6-digit one, to be less burdensome on smaller organizations to implement.

The NAICS code is how UBTI will be categorized. The first two digits of the NAICS code for the specific trade or business are used to determine its classification. A potential troublesome spot in the regulations prohibit social clubs, such as golf courses and country clubs, to identify all its unrelated trades or businesses using the NAICS 2-digit code for arts, entertainment, and recreation 71.

Other businesses specifically mentioned in the regulations include merchandise sales, food and beverage services, and rental property. Food Services have a NAICS 2-digit code 72 while merchandise sales fall under code 45.

While clubs have always had to separate member and nonmember income, the new rules require a further breakdown. If a club has a nonmember outing, it will be required to break down the income and expenses between the amount related to the use of the course and the food and beverage at the end of the day.

HOW TO CALCULATE UBTI

Calculating unrelated business taxable income is not new; exempt organizations with different revenue streams are already accustomed to it. A big part of the change in the proposed regulations is how it's calculated, though. Starting in 2021, clubs and other exempt organizations will need to calculate UBTI separately with respect to each trade or business. They are no longer allowed to aggregate income and deductions from all unrelated activities or use net operating losses (NOLs) from one activity to offset the gains of another.

continued

TO CALCULATE UBTI:

- For each unrelated trade or business, assign a two-digit NAICS code.
- Add all unrelated business income from each trade or business.
- This amount should be calculated without regard to any deductions, such as NOL or charitable contributions.
- The total UBTI is reduced by qualifying deductions, explained below.
- Additionally, taxable income from each trade or business cannot be less than $0.

In the new regulations, unadjusted gross UBTI is specifically mentioned as not being a reasonable method to allocate indirect expenses because it is a revenue-based method that does not account for differences in the prices charged for an activity, such as higher pricing for non-members. *[See Big Divot Country Club example on next page]*

UBTI REGULATIONS FOR CLUBS

The new rules for unrelated business taxable income apply to all exempt organizations, but clubs were given a significant amount of attention in the rules. Club owners and operators need to be familiar with these rules and be prepared to implement them by the end of this year.

"After the IRS issued final regulations on December 2, 2020, unrelated business taxable income (UBTI) will be computed differently and potentially generate unrelated business income tax."

LOOKING AHEAD

Although it may seem like another challenge on top of dealing with the financial fallouts due to COVID-19, this is a good opportunity to plan for the future, both in terms of operational changes and taxable income modifications. The regulations can be complicated, but advance planning is key to successfully incorporating new unrelated business taxable income guidelines. ■

Big Divot Country Club

IRS Nonmember Allocation Method

First published in the 1975 990 Supplemental Instructions

Given Facts

– Total Number of Days in the Year	365
– Number of Days the Restaurant & Bar (R&B) Are in Use	300
– Average Number of Hours the R&B Are Open Daily	14
– Number of Days of Nonmember Use of the R&B	25
– R&B Sales to Nonmembers on the 25 Days	$ 25,000.00
– Total R&B Sales on the 25 Days	$ 100,000.00
– Total R&B Sales for the Year	$ 250,000.00
– R&B Cost of Goods Sold	$ 100,000.00
– R&B Nonmember Direct Expenses	$ 1,000.00
– R&B Vairable Expenses	$ 95,000.00
– R&B Fixed Expenses	$ 70,000.00

Method 1:

Compute Net Profit on Nonmember Income Using the Gross Receipts Allocation Method

STEP 1

Determine the ratio of nonmember sales to total sales by dividng the nonmember sales by the total sales.

Nonmember Sales	Total Sales	Gross Receipts Percent
$25,000 /	$250,000	= 10%

STEP 2

Compute the net profit or loss by applying the gross receipts percentage to the allocable expenses.

Description	Total	Allocation Percent		Nonmember
R&B Sales to Nonmembers	$ 25,000	N/A		$ 25,000.00
R&B Cost of Goods Sold	$ 100,000	X	10% =	$ (10,000.00)
R&B Nonmember Direct Expenses	$ 1,000	N/A		$ (1,000.00)
R&B Variable Expenses	$ 95,000	X	10% =	$ (9,500.00)
R&B Fixed Expenses	$ 70,000	X	10% =	$ (7,000.00)
Net Loss on R&B Sales to Nonmembers				$ (2,500.00)

Method 2:

Compute Net Profit on Nonmember Income Using the Actual Usage Allocation

STEP 1

Determine the hours the restaurant and bar are open on the days when nonmember use occurred by multiplying the number of days of nonmember use by the number of hours the restaurant and bar are open daily.

Days of Nonmember Use	X Hours R&B Open	Hours of Use on Days of Nonmember Use
25	**14**	**= 350**

STEP 2

Deterine the hours of nonmember use. If the actual hours of nonmember use are not available, use an estimate.
One estimating method is shown in Step 3.

STEP 3

Usually, both members and nonmembers use the restaurant and bar on days of nonmember use. The time that members and nonmembers use the restaurant and bar is generally reflected by the volume of sales during the same time period. Therefore, you can estimate the hours of nonmember as follows:

[continued]

Nonmember Receipts	/ Total Receipts on Days of Nonmember Use	= Percent of Nonmember Use
$25,000	**$100,000**	**25%**

Determine the estimated hours of nonmember use by multiplying the hours the restaurant and bar were open on days of nonmember use by precent of nonmember use based on the ratio of nonmember receipts to toal receipts on days of nonmember use.

Hours R&B Were Open on Nonmember Use Days	X Percentage of Nonmember Use	= Estimated Hours of Nonmember Use
350	**25%**	**87.5**

STEP 4

Determine the total hours the restaurant and bar are open during the year by multiplying the number of days the restaurant and bar are open by the number of hours the restaurant and bar are open daily.

Total Days R&B Was Open	X Hours R&B Was Open Daily	= Total Hours Open During the Year
300	**14**	**4,200**

STEP 5

Determine the percent of the variable and fixed expenses attributable to nonmember use by dividing the hours of nonmember use by the total hours the restaurant and bar are open during the year.

Hours of Nonmember Use	/ Hours R&B Was Open During the Year	= Percent of Expenses Attributable to Nonmember Use
87.5	**4,200**	**2.08%**

STEP 6

Compute the net profit or loss by applying the applicable percent to the allocable expenses.

Description	**Total**	**Allocation Percent**		**Nonmember**
R&B Sales to Nonmembers	$ 25,000	N/A		$ 25,000.00
R&B Cost of Goods Sold	$ 100,000	X	10.0% =	$ (10,000.00)
R&B Nonmember Direct Expenses	$ 1,000	N/A		$ (1,000.00)
R&B Variable Expenses	$ 95,000	X	2.08% =	$ (1,979.00)
R&B Fixed Expenses	$ 70,000	X	2.08% =	$ (1,458.00)
Net Profit on R&B Sales to Nonmembers				$ 10,563.00

Method 3:

Compute Net Profit on Nonmember Income Using "Big Divot" Allocation

STEP 1

Estimate hours of nonmember use:

Hours R&B Were Open on Nonmember Use Days	X Percentage of Nonmember Use	= Estimated Hours of Nonmember Use
350	**25%**	**87.5**

STEP 2

Precent of variable expenses directly related to nonmember use:

Hours of Nonmember Use	X Hours R&B Was Open During the Year	= Percent of Expenses Attributable to Nonmember Use
87.5	**4,200**	**2.08%**

STEP 3

Compute the total hours the facilty was available for use as follow:

Days in the Year	X Hours Per Day	= Total Hours During the Year
365	**24**	**8,760**

STEP 4

Determine the percent of fixed expenses attributable to nonmbmer use by dividing the hours of nonmbmer use by the total hours in the year.

Hours of Nonmember Use	/ Total Hours During the Year	= Percent of Fixed Expenses Attributable to Nonmember Use
87.5	**8,760**	**1.00%**

STEP 5

Compute the net profit or loss by applying the applicable percent to the allocable expenses.

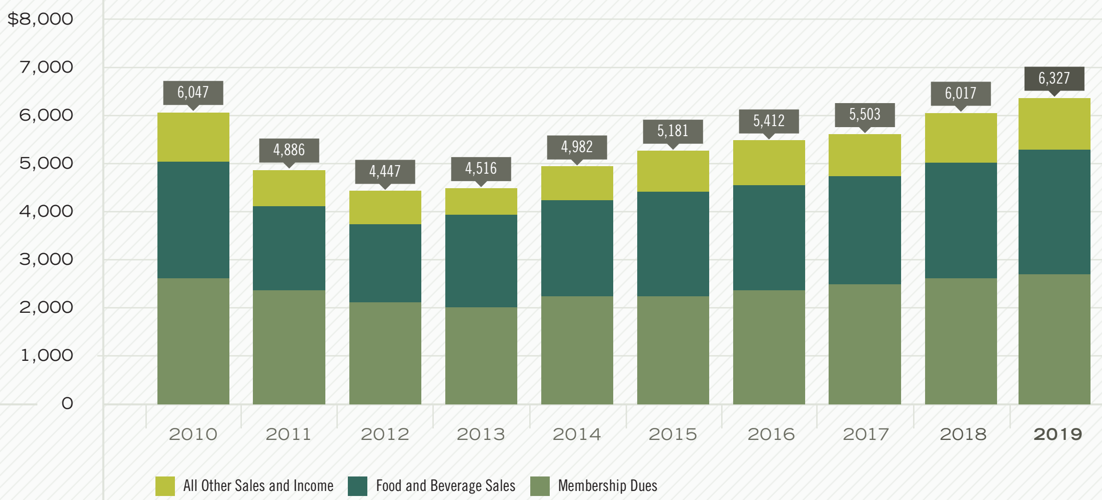
Description	**Total**	**Allocation Percent**		**Nonmember**
R&B Sales to Nonmembers	$ 25,000	N/A		$ 25,000.00
R&B Cost of Goods Sold	$ 100,000	X	10.0% =	$ (10,000.00)
R&B Nonmember Direct Expenses	$ 1,000	N/A		$ (1,000.00)
R&B Variable Expenses	$ 95,000	X	2.08% =	$ (1,979.00)
R&B Fixed Expenses	$ 70,000	X	1.00% =	$ (700.00)
Net Profit on R&B Sales to Nonmembers				$ 11,321.00

SOURCE OF INCOME PER MEMBER

YEAR	Membership Dues	Food and Beverage Sales	All Other Sales and Income	Total Revenue
2000	$1,934	$1,872	$2,357	$6,163
2001	$1,920	$2,327	$906	$5,153
2002	$1,678	$2,048	$1,006	$4,731
2003	$2,195	$2,654	$1,347	$6,196
2004	$2,244	$2,477	$1,402	$6,122
2005	$2,475	$2,557	$1,593	$6,625
2006	$2,525	$2,355	$1,625	$6,505
2007	$2,383	$2,375	$1,633	$6,391
2008	$2,752	$2,818	$1,585	$7,155
2009	$2,883	$2,604	$1,917	$7,403
2010	$2,723	$2,384	$940	$6,047
2011	$2,443	$1,705	$738	$4,886
2012	$1,996	$1,707	$744	$4,447
2013	$2,015	$1,948	$553	$4,516
2014	$2,065	$2,199	$718	$4,982
2015	$2,094	$2,292	$795	$5,191
2016	$2,251	$2,202	$959	$5,412
2017	$2,506	$2,251	$746	$5,503
2018	$2,602	$2,483	$932	$6,017
2019	**$2,743**	**$2,646**	**$938**	**$6,327**

DISPOSITION OF INCOME PER MEMBER

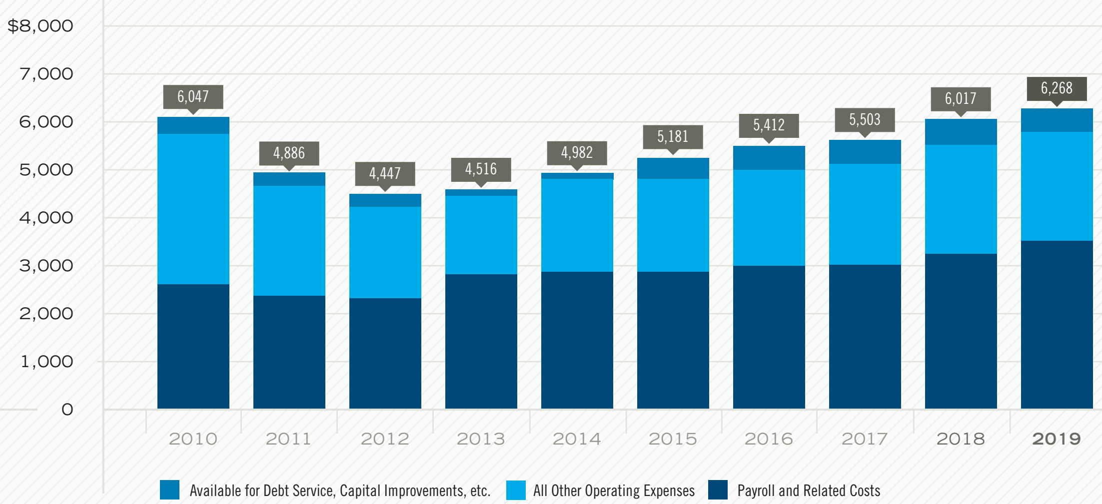
YEAR	Payroll and Related Costs	All Other Operating Expenses	Total Costs and Expenses	Available for Debt Service, Capital Improvements, etc.
2000	$1,912	$3,519	$5,431	$732
2001	$1,570	$3,310	$4,880	$273
2002	$2,577	$2,234	$4,811	-$80
2003	$3,546	$2,650	$6,196	$0
2004	$3,498	$2,541	$6,039	$83
2005	$3,636	$2,661	$6,297	$328
2006	$3,651	$2,597	$6,248	$257
2007	$3,723	$2,603	$6,326	$65
2008	$3,747	$3,404	$7,151	$4
2009	$4,233	$2,964	$7,197	$206
2010	$2,680	$3,229	$5,909	$138
2011	$2,325	$2,364	$4,689	$197
2012	$2,285	$1,957	$4,242	$205
2013	$2,708	$1,760	$4,468	$48
2014	$2,952	$1,989	$4,941	$41
2015	$2,901	$1,948	$4,849	$332
2016	$2,952	$2,062	$5,052	$360
2017	$3,140	$1,954	$5,094	$409
2018	$3,307	$2,036	$5,343	$674
2019	**$3,439**	**$2,387**	**$5,826**	**$442**



INCOME PER MEMBER

OPERATING COST PER MEMBER

2019



RESULTS OF OPERATIONS BY SIZE

		SIZE (MEMBERSHIPS)	
	All City Clubs	1800 and Fewer	More than 1800
RATIO TO TOTAL INCOME			
SALES AND INCOME			
Operating Membership Dues	43.4%	45.6%	37.5%
Food and Beverage	41.8%	41.9%	38.9%
Rooms	7.0%	5.9%	8.7%
Sports	6.2%	5.4%	12.4%
Other Income	1.7%	1.3%	2.5%
→ **Total Income**	**100.0%**	**100.0%**	**100.0%**
DEPARTMENTAL EXPENSES			
Food and Beverage	45.7%	48.4%	36.8%
Rooms	3.4%	2.4%	6.6%
Sports	8.2%	6.9%	13.2%
Other	0.7%	1.1%	1.1%
→ **Total Departmental Expenses**	**57.9%**	**58.8%**	**57.7%**
LESS UNAPPORTIONED EXPENSES			
General and Administrative	18.3%	16.8%	15.6%
Buildings	12.4%	11.9%	12.4%
Real Estate, Property Taxes and Insurance	5.0%	6.2%	6.3%
→ **Total Unapportioned Expenses**	**35.7%**	**34.9%**	**34.3%**
→ **Total Expenses**	**93.7%**	**93.7%**	**91.9%**
→ **Balance**	**6.3%**	**6.3%**	**8.1%**

ANNUAL OPERATING COST PER MEMBER BY SIZE

		SIZE (MEMBERSHIPS)	
	All City Clubs	1800 and Fewer	More than 1800
INCOME AND EXPENSES PER MEMBER			
SALES AND INCOME			
Operating Membership Dues	$2,743	$3,360	$1,760
Food and Beverage	$2,646	$3,085	$1,826
Rooms	$441	$434	$410
Sports	$393	$395	$580
Other	$105	$97	$116
→ **Total Income**	**$6,327**	**$7,370**	**$4,690**
DEPARTMENTAL EXPENSES			
Food and Beverage	$2,889	$3,567	$1,726
Rooms	$215	$180	$310
Sports	$520	$505	$620
Other Expense	$43	$83	$50
→ **Total Departmental Expenses**	**$3,666**	**$4,335**	**$2,705**
LESS UNAPPORTIONED EXPENSES			
General and Administrative	$1,156	$1,238	$734
Buildings	$785	$877	$580
Real Estate, Property Taxes and Insurance	$319	$455	$294
→ **Total Unapportioned Expenses**	**$2,260**	**$2,570**	**$1,607**
→ **Total Expenses**	**$5,926**	**$6,905**	**$4,312**
→ **Balance**	**$401**	**$465**	**$378**

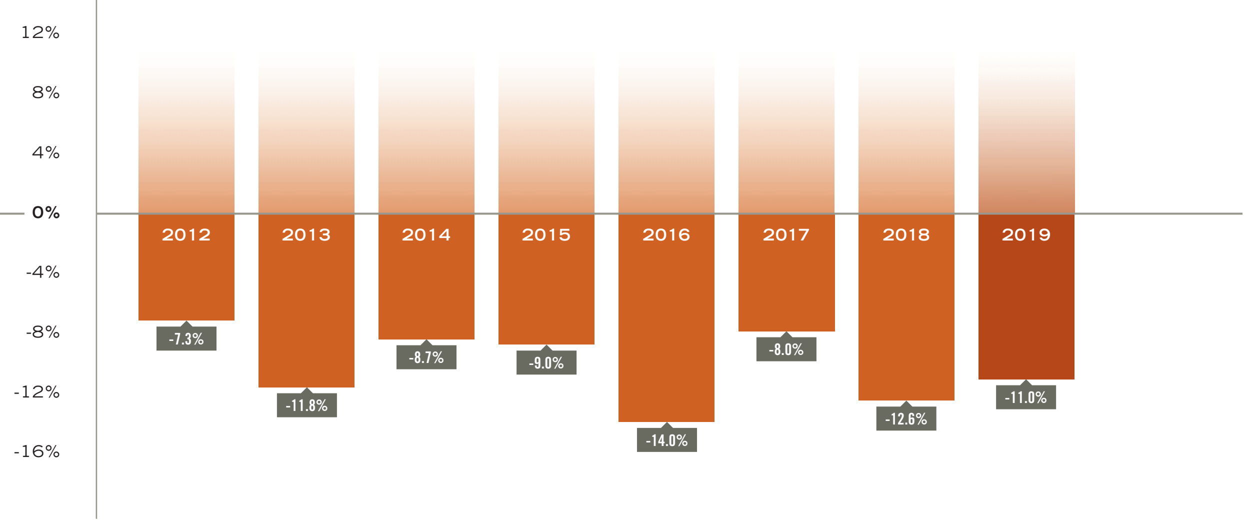
MEMBERSHIP DATA AND PAYROLL STATISTICS BY SIZE

		SIZE (MEMBERSHIPS)	
	All City Clubs	1800 and Fewer	More than 1800
MEMBERSHIP DATA			
Full Membership Turnover Percentage	8.2%	8.2%	8.3%
Variation in Membership	1.2%	1.1%	-0.4%
Average Annual Dues Rate			
Current Year	$3,288	$4,380	$2,945
Prior Year (from prior Trends report)	$3,432	$4,020	$2,862
PAYROLL STATISTICS			
Payroll Statistics per All Operating Revenue Excluding Dues			
Food and Beverage	38.0%	38.5%	39.1%
Rooms	4.5%	4.2%	4.2%
Sports	9.1%	9.7%	3.8%
➔ **SubTotal**	**51.6%**	**52.4%**	**47.1%**
➔ **All Other Departments**	**28.7%**	**28.2%**	**30.2%**
➔ **Total Club Payroll**	**80.3%**	**80.6%**	**77.3%**
Total Payroll Tax and Benefits	17.0%	17.0%	17.0%
➔ **Total Payroll and Related Costs**	**97.3%**	**97.6%**	**94.3%**

DEPARTMENTAL OPERATIONS BY SIZE

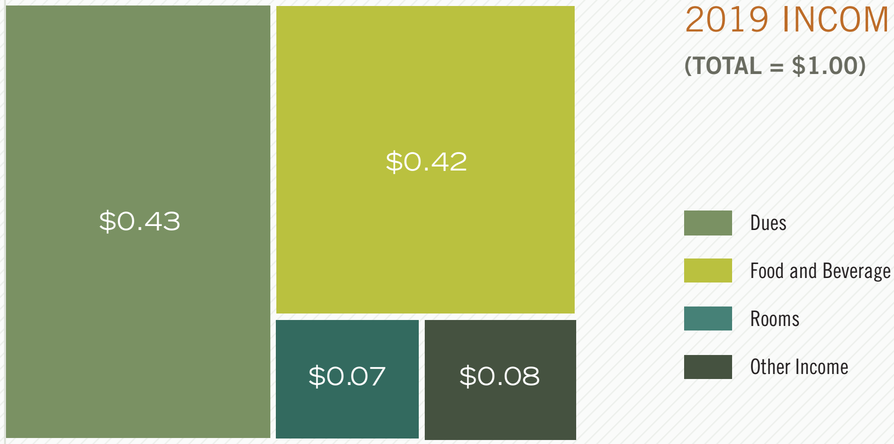
	All City Clubs	SIZE (MEMBERSHIPS) 1800 and Fewer	More than 1800
FOOD AND BEVERAGE DEPARTMENT			
Food Sales	100.0%	100.0%	100.0%
Food Costs	38.4%	38.6%	35.8%
→ **Food Gross Profit**	**61.6%**	**61.4%**	**64.2%**
Beverage Sales	100.0%	100.0%	100.0%
Beverage Costs	31.6%	36.6%	25.6%
→ **Beverage Gross Profit**	**68.4%**	**63.4%**	**74.4%**
Total Food and Beverage Sales	100.0%	100.0%	100.0%
Total Cost of Food and Beverage Sales	36.3%	38.9%	33.9%
→ **Total Food and Beverage Gross Profit**	**63.7%**	**61.1%**	**66.1%**
Payroll (Salary and Wages)	53.7%	56.5%	50.1%
Payroll Taxes and Benefits	11.9%	11.9%	13.8%
Other Expenses	9.0%	9.8%	7.0%
→ **Total Expenses**	**74.5%**	**78.2%**	**70.9%**
→ **Net Income**	**-10.8%**	**-17.1%**	**-4.8%**
ROOMS DEPARTMENT			
Room Sales	100.0%	100.0%	100.0%
DEPARTMENTAL EXPENSES			
Payroll (Salary and Wages)	28.6%	28.3%	24.1%
Payroll Taxes and Benefits	10.3%	8.5%	11.1%
Other	9.4%	12.3%	9.2%
→ **Total Expenses**	**48.3%**	**49.0%**	**44.4%**
→ **Net Income**	**51.7%**	**51.0%**	**55.6%**

FOOD & BEVERAGE PROFITABILITY



2019 INCOME $

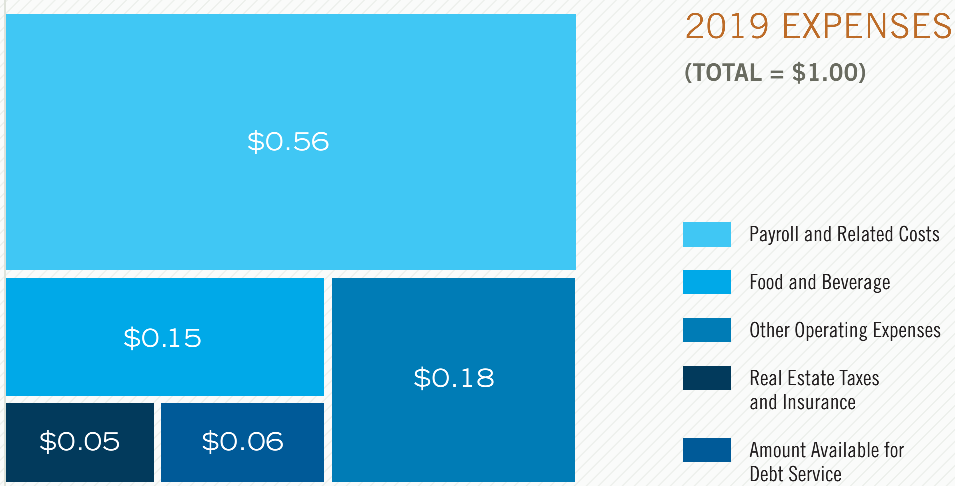
(TOTAL = $1.00)



CITY CLUB INCOME AND WHERE IT WENT 2019

2019 EXPENSES $

(TOTAL = $1.00)



SERVICES BUILT AROUND YOUR CLUB'S UNIQUE PROFILE

The economy for private club membership should begin to rebound in the middle of 2021 for clubs that know how to recruit new members, take advantage of different revenue-generating opportunities and identify areas to increase efficiency and reduce costs. Private clubs occupy a unique niche within the hospitality industry and it isn't always easy to find the specialized answers you need. From different membership models and facility maintenance to rental units and restaurant operations, there are a lot of moving parts that make running these operations a special challenge.

PBMares has built an exceptional track record of helping private clubs, golf courses and other organizations manage costs and reach financial goals, while remaining in compliance with the multitude of regulations that govern them. Within the club segment, there are differences in operations and management for city clubs and country clubs. They have different amenities, a different member base and different approaches to expense management and capital improvements. PBMares has the experience to guide both types of clubs to success.

PBMares is a member of the Club Managers Association of America (CMAA), the National Club Association (NCA) and the Hospitality Financial and Technical Professionals (HFTP). Team members present at the annual CMAA conference, as well as local and national chapters of HFTP on topics ranging from governance, accounting updates, financial and lifestyle trends and labor issues.

Large and small, country or city, private clubs look to PBMares to deliver industry-leading expertise and support with a complete range of services, including:

AUDIT & ASSURANCE
- Accounting and Auditing
- Employee Benefit Plan Audits

CONSULTING
- Board Orientations
- Cybersecurity and Risk Control
- Fraud and Internal Controls
- Litigation Support
- Retirement Plan Design and Administration
- Privacy Issues Consulting
- Technology Solutions
- Turnover Management

TAX
- Tax Planning and Compliance
- Section 277 Assistance
- Unrelated Business Income Tax (UBIT)

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For more information on any content contained in this publication or to contact any of our contributors, please use the contact information listed below:

EDITOR:
Kevin F. Reilly, J.D., CPA, CGMA, Partner
kreilly@pbmares.com
CONTRIBUTORS:
Enrique C. Brito, CFA, CVA, CM&AA, Managing Director
ecbrito@pbmares.com
Helaine S. Weissman, CPA, Partner
hweissman@pbmares.com
Edward T. Yoder, CPA, MSA, Partner
eyoder@pbmares.com

About PBMares Wealth Management
PBMares Wealth Management is an independent wealth management firm headquartered in Virginia with 12 offices stretching from Morehead City, North Carolina to Baltimore, Maryland. Since 1999, we have been providing wealth management and investment advisory services to individuals, qualified retirement plans, trusts, and foundations.

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