

### **Program Content**

- The non-profit governance landscape
  - Responding to a decade of governance challenges
- Governance roles & documents in the private club
- Sustaining effective governance
  - Succession planning through core values & due diligence
  - Strategic planning for strategic management
- Finding your club's moral compass
  - Code of Ethics vs. Code of Conduct
- Good stewardship
  - Achieving strong financial oversight

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### Today's Presenters

### Tammy Tassitano National Director Club Services



Tammy.tassitano@mcgladrey.com

- Certified Public Accountant
- More than 20 years of experience serving private clubs
- Editor Florida Trends in Private Clubs, an annual statistical review of more than 200 private clubs throughout Florida
- Frequent speaker for HFTP, the Club Manager's Association of America (CMAA), and the National Club Association (NCA)
- Contributor to the joint CMAA publications Understanding Club Finances and Managing the HOA Residential Golf Community
- Board Member of the National Club Association Foundation.

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### Today's Presenters

### Philip G. Newman

National Club Consulting Leader



- Certified Public Accountant and Certified Internal Auditor
- More than 20 years of experience serving private clubs
- Served on Global Board of Hospitality Financial and Technology Professionals (HFTP)
- Frequent speaker for HFTP, the Club Manager's Association of America (CMAA), and the National Club Association (NCA)
- Member of CPA sub-committee involved in preparation of the Uniform System of Financial Reporting for Clubs
- Contributing editor to the NCA publication Club Governance Guidelines: A Path to Organizational Excellence
- Philip.newman@mcgladrey.com 
   Contributor to the joint HFTP and CMAA publication titled *Understanding Club Finances*

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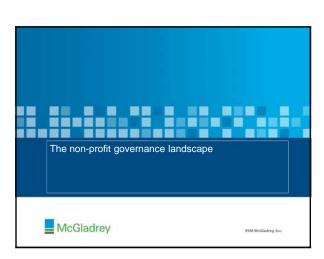
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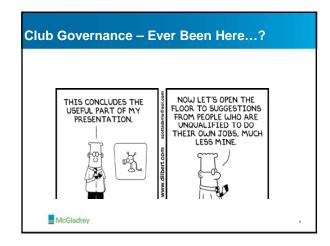
### **About McGladrey**

- Brand name for RSM McGladrey and McGladrey & Pullen
- Fifth largest provider of assurance, tax and consulting services in the U.S.
- 7,000 professionals and associates in nearly 90 offices
- Leading national provider of professional services for private clubs
- Other industries include banking, financial services, government, health care, manufacturing and distribution, not-for-profit, private equity groups and real estate

www.mcgladrey.com/privateclubs









### 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 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

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### 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

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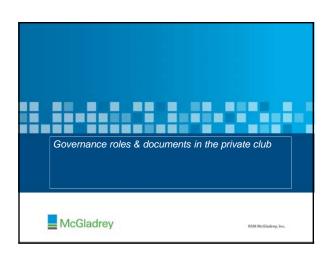
### Governance Trends

- 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

### "I don't know what the profession will be like in 10 years, but what 2009 does show us is that we can't go about our business as normal... ...the golden days as we knew them are gone, and that is a good thing because it causes you to be a good manager. Complacency is a killer in any industry, and the people who adapted and changed in 2009 are going to be better managers, better individuals, and their clubs are going to be better. The clubs that come out of 2009 and 2010 in good shape are going to be very sustainable businesses in our communities." - Michael Leemhuis, Club Management January

2010

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### **Board Duties: Best Practices**

### Organizational

- Establish club policies & rules (including Code of Conduct) & ensure that they are followed
- Address disciplinary matters
- Ensure accurate records are maintained
- Do long-range planning
- Ensure that structure & practices of the board provide for sound corporate governance
- Adopt & follow corporate governance guidelines

### **Board Duties: Best Practices ▶** Board Composition: Choose directors & officers who have trust & confidence of members & will provide true leadership Consider diversity on board (important to be representative of membership?) Board orientations: Ensure that directors fully understand duties & responsibilities Good orientation begins with recruitment McGladrey **Board Duties: Best Practices** ■ Fiscal - Approve & monitor budgets - Set dues & fees - Review financial controls Ensure proper use of club assets ■ Fiduciary - Oversee process to evaluate adequacy of: Internal controls · Risk management · Financial reporting McGladrey Board Duties: Best Practices Fiduciary duties (cont.) - Ensure standards of conduct Establish & maintain code of ethics & conflict of interest policy - Maintain general standards of care · Discharge duties in good faith • Use care of "ordinarily prudent person" · Act in best interest of club · Avoid dealings of self-interest McGladrey

### **Board Duties: Best Practices** General Communicate with members regarding activities and concerns - Identify and address emerging issues & trends - Identify and develop future club leaders - Support the club in word and deed McGladrey Effective Boards: Best Practices Ways for boards to be effective: Be educated -- and be aware -- about what's expected and about what's going on > Be familiar with major policy, legal & fiscal issues facing club > Offer guidance where appropriate > Respect differences of opinion > Be deliberate in decision-making Be pro-active: especially when you see things that could harm the club Seek advice of outside experts when appropriate (be sure they're independent) Accept and publicly support board decisions, once made (work together) McGladrey Effective Boards: Governance Role Definitions

- President
- Vice-President
- Treasurer
- Secretary
- Nominating Committee
- Governance Committee
- Long-Range Planning Committee
- Membership Committee
- Audit Committee

### Effective Boards: Building The Board

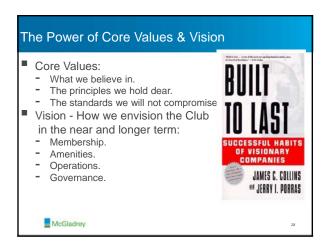
- Director Education
  - Orientation
  - Duties and role review
  - History and document review
  - Facilities tour
  - Retreats
  - Strategic Planning
- Succession Planning
  - Candidate pool
  - Candidate development





### Common Challenges to Strategic Planning ■ Gaining consensus on key issues? Formulating a precise plan of action? Staying focused to get things done? McGladrey Strategic Planning is Designed to: Form consensus on vision, mission and goals. ■ Take effective, resolute actions. Stay focused on the plan long term. Organizations using strategic planning outperform those that don't. ■ Strategic Planning = Succession Planning! McGladrey Strategic Planning Flaws Disenchantment with "traditional comprehensive" planning approaches: Too involved. - Takes too long. Too expensive. Not executed. Unable to perpetuate the vision and mission into the future. McGladrey









### The Power of Core Values & Vision

- Without agreed-upon core values and vision, decisionmaking often occurs in a chaotic environment.
- No solid context for decision-making:
  - Who can make the most compelling argument in favor of, or against, a particular item or issue.
  - Who can deliver the greatest number of vocal members for or against an item.
  - How effective a particular Board member is in gaining the support of other members on a particular issue.
  - How much dissonance a "vocal minority" of the members can generate in support of, or against, a particular initiative.
- And an endless array of other factors none of which have much to do with what's necessarily best for the membership, or in line with the membership's shared values and vision.

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### The Power of Core Values & Vision

Strategic Planning is expressly designed to work against such chaos by:

- Providing a meaningful framework for effective decision-making by the Board, Committees and Management
- 2. Gaining membership-wide agreement on the core values and vision (through the focus groups and the survey).
- 3. Using those core values and vision to govern and "constrain" the decision-making process.

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### Strategic Succession Planning: Build a Team Select the Planning Team: · Current and former Board members. · Influential members of the Club. Broad cross section of membership member category, gender, age and • Includes the Club's GM and CFO McGladrey Strategic Succession Planning: Build a Team Conduct a Preliminary Meeting: Review documents. Last 18 months financial statements. Last 18 months of Board meeting minutes. Last 18 months of key committee meeting minutes. Bylaws. Recent membership survey results. New member & Board member orientation documents. Other documents important to your Club. Gather Key Strategic Information: SWOT analysis. Core Values analysis. Future Vision analysis. Key Goals/Issues analysis. Value Proposition analysis. Club Personality analysis. McGladrey Strategic Succession Planning: Mission vs. Vision A Mission Statement Defines the club's purpose and primary objectives. Prime function is internal – to define the key measure or measures of the club's success Prime audience is the leadership team and members Vision Statements Define the organizations purpose, but in terms of the organization's values rather than bottom line measures Values are guiding beliefs about how things should be done. Communicates both the purpose and values of the organization. For employees, it gives direction about how they are expected to behave and inspires them to give their best. Shared with members, it shapes their understanding of why they should belong to the club

### Building Your Club's Mission Statement

- Describe what the club does, with whom or for whom it does it, and, in broad terms, how it does it.
- A typical mission statement will have four components:
  - What the club is;
  - What the club aims to do or achieve;
  - Who the work is aimed at (the target group)
  - How it does its work in broad terms, what methods it uses.

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Mission & Vision

### Our Mission Statement

- "We provide our members and their families the premier accommodation, dining, fitness and social experience unmatched in personal service."
- Our Vision Statement
  - "We will be a club that preserves its natural assets, maintains its amenities and infrastructure at high quality levels, provides a safe and friendly environment for its members, operates with honesty and integrity, and manages the club's financial assets responsibly."
  - "Get it there by 10am"
  - "Be perfect for 12 weeks"

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Strategic Succession Planning: SWOT

- Strengths and Weaknesses are internal factors
- Opportunities and Threats are external factors

### Simple SWOT Rules

- Be realistic about the strengths and weaknesses of your club
- Analysis should distinguish between where your club is today, and where it could be in the future
- Be specific, avoid grey areas
- Always analyze in context to your competition
- Keep your SWOT short and simple
- SWOT is subjective

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### Strategic Succession Planning: SWOT

Strengths	Weaknesses
Location of your club.	Lack of marketing expertise
Facilities.	Undifferentiated services (i.e. in relation to your
A new innovative service.	competitors)
Quality processes and procedures.	Location of your club
Your specialist marketing expertise.  Any other aspect of your club that adds value to your services	Damaged reputation Facilities
Opportunities	Threats
Opportunity to define the future and mission of	Competition / Overbuilding of Clubs
the club	Inflated cost structure of city
More open communications with members	City economy weak and no longer promoting a stror
Increase number of members using the club Development of a general marketing strategy	marketing plan Cost impact of new legislation
Unity of purpose between the members	Resignation list
General Improvements to Club Facilities	Resignation list
Appropriate balance of exclusivity and value	
proposition	



### Strategic Succession Planning: Focus Groups

- Representative sampling of the membership.
- Designed to gather information about:
  - Values.
  - Expectations.
  - · Vision.
- How many participants?
- Control meeting length
- Staff focus group meeting includes all key individuals, with at least one representative from each club department included.

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### Strategic Succession Planning: Surveys

- Targeted Member Survey:
  - Survey questions based on core values, vision and issues identified in focus group meetings and by planning team.
  - Also includes specific questions from the planning
  - Requests basic demographics (member category, age, gender, frequency of dining, etc.).
  - Separate copy of survey sent for member and

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### Strategic Succession Planning: Distill

- Review information gathered.

   Planning Team preliminary meeting results.
  - Focus group results. Survey results.

- Survey resources.

   Agree on Core Values and Vision.
   Based primarily upon focus group and survey information gathered.
   Posted for reference throughout the planning sessions.
- Identify and prioritize key issues
- Generate master list of issues.
- Prioritize the issues.
  Choose the "key issues".
  Address each "key issue" individually:
  - Brainstorm solutions.

  - Choose best solution.
     Confirm that solution fits with Core Values and Vision.

### Strategic Succession Planning: Revisit

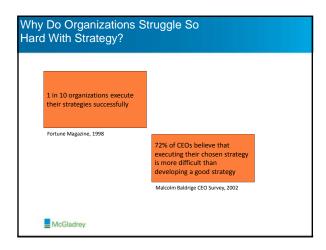
- Repeat the planning process every 2 to 3 years.
  - One-day Board Retreat during off years to regroup and focus.
- Keep the core values, vision and action plans front and center – "top of mind".
  - Status reports at all Board meetings.
- Use "strategic thinking" throughout.
  - For all decisions, check against the plan and the core values/vision.

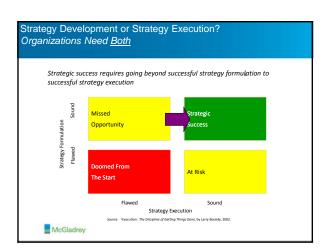
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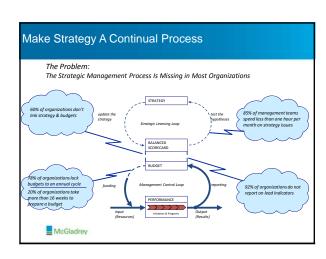
The Balanced Scorecard

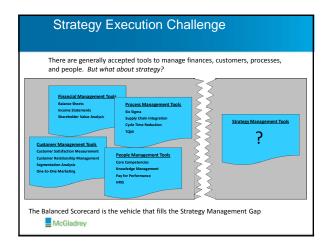
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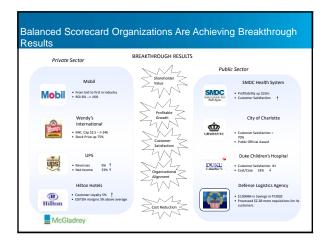




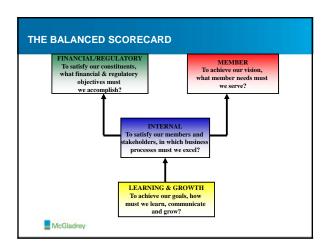


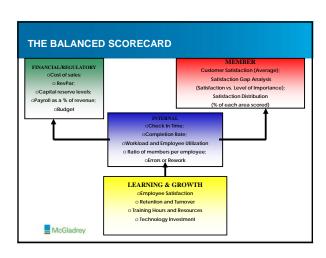


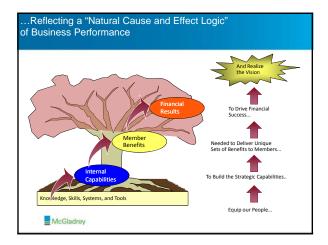












### **Targets**

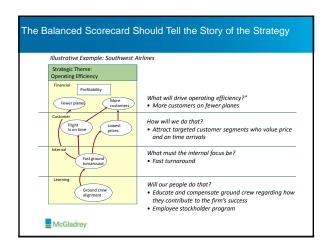
- Targets need to be set for all measures
- Should have a "solid basis"
- Give personnel something for which to aim
- If achieved will transform the club
- Careful not to develop measures/targets in a fragmented approach:
  - i.e. Asking people to increase member satisfaction has to be backed up with the knowledge, tools, and means to achieve that target.

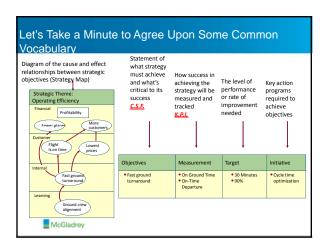
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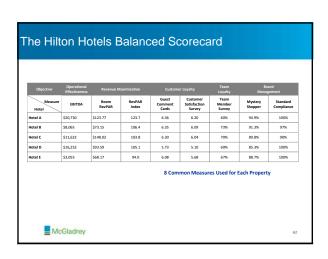
### Initiatives

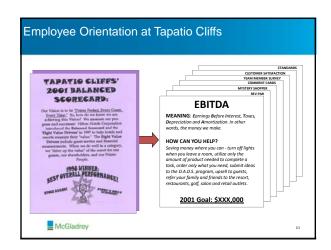
Once measures and targets are established, it is the responsibility of management to determine *HOW* the club will achieve its goals.

Measures are used to determine the effectiveness of strategic initiatives.

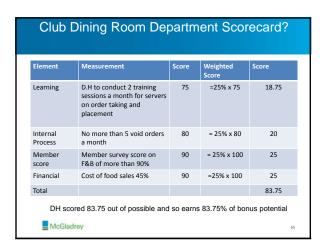


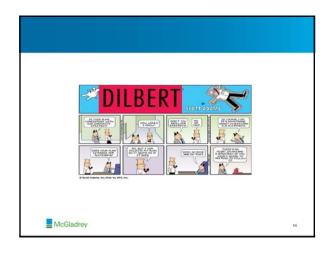




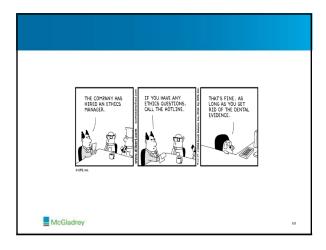












# Governance – The Control Environment Integrity and ethical values Commitment to competence Board of governors or audit committee participation Management's philosophy and operating style Organizational structure Assignment of authority/responsibility Human resource policies and practices "Of two evils, choose neither." - Charles Spurgeon

### Governance - Ethics

- Do the right thing?
  - "Not wholly-right or wholly-wrong"
- Fundamental ground rules
- Moral compass for complex dilemmas
- CMAA "Test of Compliance"

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### Ethics - CMAA Test of Compliance

- When facing an ethical conflict, answer these three questions:
  - Could I announce my decision to the membership at the club's annual meeting?
  - Could I announce my decision to other club managers at the World Conference?
  - Would my decision meet with the approval of business professionals?

### Mapping Your Ethical Landscape

- Code of ethics a definitive list of the ethical rules of the club
- Code of conduct specific actions in the workplace to implement the code of ethics
- Ethics (audit) committee with well defined charters
- Policy & Procedure manuals

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### Codes of Ethics

- No stone tablets from the mountain...
- Benefit from process of design
- Involve board & key staff
- Clear vision of integrity
- Align reward system no mixed signals
- Ethical dimensions to every significant management decision

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### Ethics: How do you stack up?

- Do you have an audit committee?
- Does the audit committee have a written charter clearly defining responsibilities and duties?
- Are you satisfied that there is transparency in your club's financial reporting to you, to the board, and to the membership?
- Are adequate resources devoted to achieving such transparency?

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### Ethics: How do you stack up?

- Are your competitive bidding processes properly conducted to ensure quality as well as price is taken into account for all the club product and service purchases?
- Do your employees believe a cost/benefit analysis is being applied to ethical issues (a little theft is ok!)?

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### Ethics: How do you stack up?

- Have decision-makers on the board and committees disclosed all conflicts of interest or potential conflicts?
- Have such decisions-makers excused themselves from the bidding process when their close friend, colleague, or business associate is applying for the contract?
- Are your hiring practices free from bias of any kind, including nepotism?
- What are you doing to ensure adherence to your club's code of ethics?

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## Achieving strong financial oversight WALLY, I NEED YOU TO DO AN INVENTORY IN OUR WAREHOUSES, IT SHOULD TAKE ABOUT A MONTH THE NUMBERS? THE NUMBERS? WELL, NO... DREAM TOB!

### Achieving strong financial oversight

- 1. How quickly can you measure changes in your cash flow and financial position?
- 2. Are you accurately forecasting cash receipts, expenses and labor costs?
- 3. Have you reviewed your pricing structure to optimize it?
- 4. Have you reviewed your service/amenity offerings to identify inappropriate cost/member benefit items?
- 5. Does the club have adequate capital resources, including debt and equity?
- 6. Are club investments adequately diversified to minimize losses?
- 7. Does the club have a process for identifying, assessing and responding to risks of fraud?
- Is the club subject to any new or anticipated accounting, statutory or regulatory requirements that could have a significant impact on the financial stability and/or profitability of the club?
- Has the club undergone an assessment to determine any exposure to unpaid federal or state income taxes, or state and local taxes (i.e. sales tax)?

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### Achieving strong financial oversight

- How quickly can you measure changes in your cash flow and financial position?
  - Are weekly financial flash reports prepared (actual vs. budget in key areas)?
  - Are you using financial and non-financial key performance indicators (KPI's)?
  - Are you communicating key measurements to department heads on a regular basis?

Are you taking immediate action when KPI's are not acceptable?

### Achieving strong financial oversight

- 2. Are you accurately forecasting cash receipts, expenses and labor costs?
  - > Do you have a rolling 18-month cash forecast?
  - Are you using "lead measurements" that help predict near-term financial performance (event cancellations, rounds of golf vs. anticipated covers, member dissatisfaction in specific areas)?
  - Have you reached the point where your annual budget is no longer valid?

Are you heading toward a financial "circuit breaker

- 3. Have you reviewed your pricing structure to optimize it?
  - > Menu prices, menu mix and/or portion sizes
  - > Activity fees

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Achieving strong financial oversight

- 4. Have you reviewed your service/amenity offerings to identify inappropriate cost/member benefit items?
- > Costly venues that are rarely used
- > Costly gratis items that can be reduced
- Extended hours of operation with minimal usage

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Achieving strong financial oversight

- 5. Does the club have adequate capital resources, including debt and equity?
- Does the club have adequate borrowing capacity on its line of credit and adequate cushion on any loan covenants?
- Have you evaluated the club's debt to equity ratio? Debt per member?
  - Does the club need to reevaluate its debt tolerance?
  - Does the club need capital infusions of either debt or equity to survive?
- Do you know what your off-balance sheet debts are, and what the committed cash flow is?
  - Operating leases
  - Deferred compensation agreements
- Defined benefit plans
- Have you evaluated the financial impact of leases that are nearing their expiration?

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	Achieving strong financial oversight
A	
Þ	years to maintain operations?     Does the club have the ability to adequately fund reserves for future major repairs and replacements, in compliance
	with applicable state statutes?  Has the club considered refinancing to potentially reduce
	interest rates or extend the life of debt to conserve cash flow?  Do you fully understand the cash flow and financial
ľ	statement impact of entering into an interest rate swap agreement?
>	<ul> <li>Have you considered internal borrowing from designated funds to reduce interest expense and/or additional external borrowing?</li> </ul>
l	Is the club constantly communicating with its financing sources (i.e. lenders and members) to ensure they understand the current business condition, business plan and financing needs or issues?
	■ McGladrey 84
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	Achieving strong financial oversight
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	6. Are club investments adequately diversified to minimize losses in an economic downturn?
	> Does the club have significant cash concentration
l	exposure? Are such risks hedged?
l	<ul> <li>Does the club have a formal investment policy?</li> <li>Is there a procedure in place to monitor the</li> </ul>
l	investment values (weekly review)?
	Should the policy be modified in light of economic
l	changes?
l	
L	■ McGladrey 85
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	Achieving strong financial oversight
	7. Does the club have a process for identifying, assessing and responding to risks of fraud?
	Has the club reviewed its internal control
	policies and procedures, and their effectiveness?
	Does the club reconcile cash daily?
	Are receivables reviewed weekly for non- collection issues?
	Is the club's collection policy strict enough?
1	> Is the club following the collection rules?

### Achieving strong financial oversight

- Financial Misstatements
  - Bogus revenues
  - Concealed liabilities & expenses
  - Improper disclosures
  - Improper valuations
- Non-Financial
  - Employment credentials
  - Internal documents
  - External documents

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Achieving strong financial oversight Non-shareable Financial Problem/ Pressure Rationalization **Fraud** Triangle Opportunity "There is far more opportunity than there is ability." - Thomas A. Edison McGladrey

### Achieving strong financial oversight **Setting Expectations**

- It is expected that every manager and employee will:
  - Know the fraud related exposures in their areas of responsibility. Know the symptoms or indicators of fraud. Put in place methods to identify wrongdoing.

  - Put in place methods to identify wrongdoing.

    Make sure the transactions they personally approve are not fraudulent.

    Personally monitor for those frauds that only they are in a position to detect.

    Question and challenge the unusual.

    Set an example of honest and ethical behavior by personal example and by not tolerating dishonest or unethical behavior in others.

    Strive to prevent fraud by minimizing the exposures and reducing the opportunities and temptation.

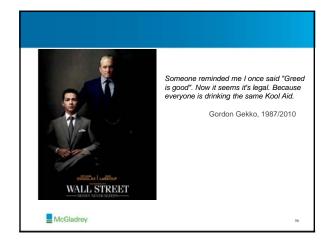
    Never inappropriately subordinate the needs of the organization to their own needs.

  - Never inappropriately subordinate the needs of the objantization to their own need Recognize and respond to the new or increased exposures. Not seek to achieve goals through dishonest or unethical means. Do not tolerate such behavior in subordinates. Immediately refer suspected wrongdoing to Internal Audit or Security for investigation.

  - Do the right thing!

Achieving strong financial oversight	
Setting Expectations	
POLICY ON SUSPECTED MISCONDUCT AND DISHONESTY	
Purpose	
Definition of Misconduct and Dishonesty	
Policy and Responsibilities Reporting	
Additional Responsibilities of Supervisors Responsibility and Authority for Follow Up and Investigation	
Reported Incident Follow Up Procedure	
Acknowledgment	
My signature signifies that I have read this policy and that I understand my responsibilities related to the prevention, detection and reporting of suspected	
misconduct and dishonesty.  I further acknowledge that I am not aware of any activity that would require	
disclosure under this or other existing company policy or procedure statements.	
Signature:	
Print Name:	
Date signed:	
McGladrey 90	
Achieving strong financial oversight	
Setting Expectations	
Functional Area: Fraud Risk:	
Fraud Risk Description Possible Indicators Detection Step	
■ McGladrey 91	
Achieving strong financial oversight	
How to Approve an Invoice!!	
How well do I know this vendor or contractor? Do I have first	
hand knowledge that they even exist?  Do I know that they actually provided the goods or services	
identified in the invoice or other billing statement?	
Do I know that they are using the correct amounts for price	
(including unit prices used), sales tax, freight, and other	
variables that make up the amount invoiced?  On what basis do I know that the prices are reasonable in the	
On what basis do I know that the prices are reasonable in the first place? What standard have I used in determining that the	
price charged is fair?	
How do I know that the quantities make sense? On what basis	
have we agreed to purchase the stated quantities?	
How do I know that the invoice and other documents are mathematically correct?	
Do I know that this invoice has not already been paid?	
20 Figure that the invoice has not already been paid:	

Achieving strong financial oversight It's All About the Keys	
Real World or Virtual Who has access?	
Who has access:	
■ McGladrey 93	
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Achieving strong financial oversight	
Is the club factoring projected non-collection of receivables into the cash flow projections and future budgets?  Does the club perform credit checks on new members and employees?	
<ul> <li>Is pro shop inventory growing faster than sales?</li> <li>If so, is there a plan to modify purchasing to reduce inventory levels? Inventory turnover ratio (COS/avg inventory)</li> </ul>	
Can pending orders be reduced or cancelled?     Can purchasing be done on a consignment basis?     Does the club have obsolete or slow moving retail inventory that should be considered for discounting to	
convert fo cash?  Has the club contacted suppliers to negotiate extended payment terms? Are invoices paid at the latest possible date? Analyzing early pay discounts v. preserving critical cash	
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Achieving strong financial oversight	
Is the club subject to any new or anticipated accounting, statutory or regulatory requirements that could have a significant impact on the financial stability and/or profitability of the club? LEASES	-
State or local income tax rates? Sales tax rates? Real estate/property tax valuations?	
Environmental regulations? FUTA/SUTA rates?  9. Has the club undergone an assessment to determine	
any exposure to unpaid federal or state income taxes, or state and local taxes (i.e. sales tax)?	
■ McGladrey 95	



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