

It's Budget Time

Is Your Strategic Capital Planning based on Fact or Fiction?

By

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The hot button for club managers today is the “FIVE YEAR PLAN”.

The days of the annual budget have been replaced with a long term vision for the club.

This plan might include membership goals, replacement facility needs, capital needs, golf course improvements, or added membership services. The goal is to anticipate where the club will be in five years and what the financial requirements will be to successfully run the club.

Effective Strategic Capital Planning is increasingly important for club managers as they face tighter access to shrinking sources of capital. At the same time, they struggle with aging facilities, intensifying regulatory pressures, and ever-changing member needs.

One pitfall that club managers often fall into is trying to weigh the subjective against the objective. You may be doing your capital planning based on keeping up with your competition, in response to board member feedback, or subjective input from departmental managers that may not reflect the true facts of where your assets and facilities are really headed in five years. The club manager needs to start the planning process by knowing exactly what replacement costs are going to be for current club assets.

As part of your annual budget process this year, it makes sense to invest time in a longer term strategic capital plan. You can start by developing or updating your current club ledgers by inventorying your equipment, facilities, and the current value of club assets today! Then rank the items by how long they will last and how much it will cost to replace them. **A five-year plan that details what the club has and when it needs to be replaced give management an unbiased frame of reference for accurate capital planning.** Certain functions of this process will take assistance from outside experts that specialize in valuing the assets, determining their life expectancy and providing accurate replacement costs. The key is to prioritize competing capital expenses with your ability to fund them annually. You can only do this if you have an accurate inventory of all of the clubs assets.

We have found that most clubs lack a comprehensive, integrated set of policies, procedures and internal controls for managing fixed club assets. We all do monthly inventories of food and beverage items, liquor, and pro shop items but we fail to inventory the club FF&E, golf maintenance equipment, and mechanical equipment needs on even an annual basis. The current policies governing a club's fixed asset management process are incomplete, outdated, and inconsistent and do not adequately address asset management from a life-cycle perspective and do not include guidance for conducting periodic physical inventories. Regular physical inventories of major club assets can help verify the accuracy of a club's financial and property records and help improve the accuracy of data required for budgeting, financial, insurance, and operation decision making. These reasons include providing a valuation for insurance purposes, minimizing the property tax base at some clubs, identifying theft of other undocumented disposal of club assets, and substantiating the gross asset balance sheet in the general ledger. This annual inventory also renders assets less likely to be stolen and makes it unlikely that theft would go unnoticed. These asset inventories could be performed periodically throughout the year or annually as part of the year-end closing process. Most clubs manage from a financial accounting position, rather than from a property management perspective. **Successful club managers develop control procedures that manage their clubs assets from cradle to grave.**

At the end of each year the club assesses where you are by looking at financial performance results, identifying any gaps in meeting your goals, and refining short term strategies for the coming year. You can't run a successful business if you don't have a plan with long term goals. You can't develop an accurate capital plan if you don't know the current value of your assets. **It's time to add an annual asset inventory to your standard operating procedure manual.** This one step will provide you with the facts necessary to develop a strategic capital plan, protect your club's assets, and be better prepared to fund the next five years.

Beth Thiel is a principal in the firm of Thiel and Thiel. The firm's Master Asset Planning Program (MAPP) is currently used by Bonita Bay Group, Pulte Homes, and a wide variety of CMAA Clubs throughout the United States to assist with asset audits and strategic capital planning. She can be reached at 817-581-3838 for further information.

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