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PRIVATE CLUB PRACTICE GROUP

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A Message from Ned

See your Club's financial statements through the eyes of your banker

Remember the good old days when you simply mailed a copy of your year-end financials to your banker and that was it? Now, with reduced membership levels resulting in bottom line losses and balance sheet deterioration, banks are more concerned. And they should be. In some instances, banks have had to foreclose on Clubs to try and collect their loans and in other instances have negotiated with Clubs and accepted a lesser amount than is due them, to "cut their losses."

So what does this new attitude from banks mean for your Club? If you are a financially healthy Club, perhaps not much. But, if your financial results are marginal, worse than previous years or not meeting budget, be prepared to have some difficult conversations with your banker. I am a strong proponent of communicating with your banker, and doing it long before the problem arises. It could be that your banker is in a position to help with advice, additional funds or perhaps a restructure of your debt to help ease cash flow requirements. Perhaps not, but if you don't ask, you'll never know. And if you try to hide bad news, it's only a matter of time before the bank finds out anyway.

Please contact me if you have any specific questions about my experience dealing with bankers when obtaining, refinancing and restructuring debt.

See you at the Club,

Ned

Ned McCrory, CPA
Principal, Private Club Practice Group
Batchelor, Frechette, McCrory, Michael & Co.

BANK RELATIONSHIP TIPS:

- Read your loan documents and determine what covenants your Bank and your Club agreed to.
- Analyze your loan covenants and assess if your Club will meet the various covenants.
- If you project you might, or based on actual results, determine that you have loan covenant violations, immediately involve your Treasurer, Board and Finance Committee and communicate with your banker.

Ned McCrory recently chatted with commercial lenders Peter DiFilippo, Citizens Bank (left) and Manny Barrows, BankRI (right) about Club loan covenants.

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A Closer Look at Loan Covenants.

As you review your Loan covenants through the banker's lens, it's important to know which ones they often focus on:

- **Cash Flow Coverage—**This is the most critical. Usually says that the cash flow of the Club must be 1 or 1.2 times the debt service coverage. Cash flow is usually defined as your bottom line before interest expense, depreciation/amortization, LESS any unfunded capital purchases. Debt service is usually defined as principal payments and interest expense.

- **Audit Requirement—**If you are required to have audited year-end statements, make sure they are. And make sure they are delivered on time. Sounds simple, but the Board may want to drop down to a review to save money, but the audit requirement is a Big Deal to the Bank.

- **Leverage Ratio, also called Debt to Equity—**This figure is calculated by dividing total debt by the equity on the balance sheet. The lower the number, the better. This ratio can increase significantly when operating losses combine with additional debt. This is concerning to the Bank because it indicates more financial resources are needed for debt service, leaving less for member services.