

Summer, 2008

Commodore Dawn Gardham and
Executive Committee
Lakeshore Yacht Club

Reserves, treasury bills and other current assets

Issue

Over the past number of years the Lakeshore Yacht Club has been accumulating revenue exceeding operating and capital expenses in a variety of vehicles including reserve funds, treasury bills and bank accounts. As at 05/06/2008, the total current assets (contingency funds) of the club were \$942,580.57. This does not include the capital assets of \$558,041.56. The total assets amounted to \$1,500,622.13. In other words our 'cash on hand' is more than 1.5 times the capital assets of the club. From 12/01/2007 to 06/06/2008 our revenue was \$344,025.08. During the same period, our expenses totaled \$118,262.51. This resulted in a net income year to date of \$225,762.00. For the remainder of the fiscal year there will be ongoing operating expenses, partially offset by some prepaid expenses and additional revenue August 1, 2008. The year end numbers will not change these ratios in any material way.

We respectfully submit that approaching \$1,000,000.00 (million) dollars on hand is not only inappropriate as a contingency but constitutes a risk for the club.

Rationale

1. We have done some research as to what would be appropriate contingency funds, and its purpose for an operation such as Lakeshore Yacht Club. The bottom line is that contingency funds not exceeding

\$50,000 would be appropriate. That amount would be a sufficient cushion for the types of situations we would need to finance beyond that budgeted for under normal maintenance, etc. As our main assets, the clubhouse and docks are insured, club members do not have to 'self insure' these assets.

2. The Chief Actuary of a large multi-billion dollar organization, when presented with the circumstances of our club, concluded that our contingency fund should not be greater than \$50,000, if that. Otherwise, we are overcharging our members for the benefit they are receiving. We should reduce fees, return excess charges over the years back to members and/or make major improvements to the club. The principle he relied on was that non-profit organizations should have a reserve equal to 50% of outstanding liabilities. In his professional opinion, our club would not have any meaningful liabilities. Assets that are insured, such as the club house, docks, etc. do not constitute a liability. On going maintenance and repairs are part of operating costs.
3. Outstanding debentures would not constitute a liability due to the fact that, as members leave the club, debentures are paid on the condition that a new debenture is issued (By-law 14.03). Therefore, there is no risk to the club. By definition, a debenture is a non-secured loan to an organization. Currently, we have funds over \$400,000 to cover this assumed risk when By-law 14.03 protects the club already.
4. Another example of this principle is found in pension legislation. By law, a pension fund cannot have surplus funds that exceed 10% of outstanding liabilities. One of our members manages a \$1.7 billion fund and is now in the position of having to reduce contribution rates or improve benefits as the surplus is approaching the 10% level.
5. By way of comparison, the Mimico Cruising Club is a debt-free club with membership and facilities that greatly exceed our club. We were informed by the past commodore that their contingency funds are about \$100,000 right now and therefore time for them to spend it on improvements to their club. When a commitment is made for improvements, such as replacing their visitors dock, replacing fingers, etc., their contingency funds will get depleted, and slowly build up again. Rarely do they let the contingency fund exceed \$100,000.

LSYC has about half the number of members, boats, docks, etc. therefore, \$50,000 would be a comparable contingency fund).

6. Our fee structure results in our club being one of the higher cost clubs on the lake, particularly if you compare amenities offered. For larger boats, based on our formula, rates at Lakeshore Yacht Club are significantly higher. For example, a member paying \$3,000 a year here would pay \$1,600 at CBYC, \$1,100 at Bluffers, and much less at Highland YC. That member would also pay less at Mimico, Etobicoke, Queen City, Oakville Yacht Squadron, to name a few. Clearly, members of Lakeshore Yacht Club have been paying more than is necessary for the operations of this club, the relatively lean amenities and having a reasonable contingency fund.
7. Because we have a bank account of close to a million dollars, we are concerned about the risks associated with having so much money on hand. As we now know from what has transpired in so many companies, fraudulent activity is easier to undertake than once thought possible.
8. The original rationale for having a reserve was to cushion the impact of having to replace the docks. As we have observed, we have very solid docks that, with proper maintenance are proving to be very durable. In other words, routine maintenance, with the current gradual replacement of barrels and fingers with steel tubing, can keep our docks in good order indefinitely.
9. People that have been members here for some time have already paid for the docks they are using. Future generations of members should pay for replacement docks that they will be using. It is unfair for past and current members to pay for the docks for future users.
10. There is a view that having contingency funds (includes a variety of 'buckets' such as reserve, treasury bills, bonds, cash accounts, accounts receivable, etc.) similar to what happens in a condominium is appropriate. Let's look at that. LSYC has contingency funds over 1.5 times our assets (\$942,580.57 vs. \$558,041.56). Using this ratio a condo building valued at, say, \$100M (200 units @ \$500,000 average value, not to mention common assets) would have contingency funds of \$150M. We would be really surprised if this is the case.

Options

1. On a prorated basis, based on years of membership, reimburse members for excess fees collected.
2. Significantly reduce the fees that are being charged to members.
3. Make significant improvements to the club such as a paved road into the club house area, large stones on the parking lot to address the 'dust bowl' issue, social/party/bbq docks on each spline, more than 2 BBQ's for 200 members, etc.
4. All of the above.

We, the undersigned, feel strongly that this situation is untenable and must be addressed as the highest priority for Lakeshore Yacht Club. Please provide the membership with:

1. a complete financial report including the current amount of funds in reserve.
2. a process to have this issue addressed as soon as possible.

Respectfully submitted:
