July 18, 2010

Dear MRA Member,

As a preview of the materials that will be presented and discussed at the meeting on Monday night, and to highlight the broad themes that will be discussed, we have attached hereto a file with four excel presentations.

#1 Cash Basis Operations Statement

The first, and most important, presentation, see tab #1 entitled Cash Basis Operations Statement, covers the Club's operations in 2005 through the first 6 months of 2010 and represents very simply the normal operating cash receipts and expenses of the Club on an annual basis. It does not include (until after the Net Income line) Extraordinary Additional Expenditures (Line 59, dredging, dock, trucks, etc.), Unrestricted General Contributions to the Club (line 65) or Equipment Purchases or Scholarships (which are covered in presentation #2 discussed below).

The top of this first presentation shows the income of the Club. The Club has four primary areas of income: dues (including junior dues, regular dues, inactive dues and initiation fees), coaching fees, private boat storage fees and summer camp fees. You will see that, subject to the significant variations in 2008 and 2010 for the reasons discussed below, the numbers fluctuate from year to year modestly primarily due to the change in the number of active members from quarter to quarter and year to year. That being said, we generally have consistency in the number of members with the juniors maintaining an average of 107 athletes each season and the active adults maintaining an average of 212. It is important to note that growing the Club's income by trying to significantly increase the number of junior or active adult members, outside of the existing modest fluctuation, is not feasible due to the restricted waterway and the number of members (junior or adult) that can safely utilize the same limited waterway.

To fully understand the income history presented, particularly in 2008 and 2010, you need to understand a change in billing practices that occurred for the Junior Program in the Fall of 2008 when the Club charged for the entire 2008/2009 rowing year in one payment received in 2008. This same one-time charge occurred in the Fall of 2009 for the 2009/2010 season. As a result of these changes, 2008 effectively includes a year and a half of Junior Dues and Coaching and so dramatically overstates the junior program income and therefore net income in 2008 (see #1). In addition, the income shown in the first six months of 2010 is low due to the one-time Fall 2009 billing practice and reflects Junior Dues and Coaching revenues for just those Junior rowers charged in Fall 2009 who paid in installments out of financial necessity. The intention for the 2010/2011 season is to return to charging the juniors in two installments, one in the Fall of 2010 for 4 months and one in the Spring of 2011 for 5 months; this will dramatically and negatively affect the income received in 2010 as we make this adjustment back to the two payment billing practice (see #2).

Moving on to the Club expenses (starting at line 14), you can see the line items of expenses regarding the junior and adult coaching expenses and private sculling lessons. You will see that the amounts of coaching and sculling lesson income for both the juniors and the adults are consistently higher than the expenses. As you may wonder why they are not the same, the reason for this is that we charge the individual program members and private lessons the cost of the coaching salary plus the employer costs associated with that (workman's comp, payroll taxes, 401(k), etc). The Board and the Finance Committee are committed to ensuring that the costs of the coaching staff are fully covered by those participating in the programs.

We would note that the Club has not attempted to calculate and assess a fee on the programs to recover Club costs other than coaching expenses that may be primarily generated by the program activity (such as the cost of cox boxes; launch fuel; launch maintenance and repair, etc.). The Board will explore the idea of an additional program fee that would ensure that the program members are paying a proportionally larger portion for Club expenses that are primarily incurred to support their activities.

The subsequent line item Club expenses on the Cash Basis Operations Statement are straightforward and self-explanatory. Of particular note: in 2005 we began offering a 401(k) for all of our employees and added healthcare for our fulltime employees (shown as Employee Benefits on line 24). In 2006, we hired a full-time Boatman/Facility Manager (line 22). In 2008, we hired a full-time office assistant and program coach in charge of the summer programs (lines 20 & 23). Consequently, there were increases in expenses for employee benefits (healthcare and 401(k) (line 24), payroll taxes (line 25) and workman's comp (line 26)).

In summarizing the above, given the distortions to income in 2008 and 2010 because of the change in Junior billing practices discussed above, we point you to 2009 as the best proxy for the current "normal" level of cash basis operations performance of the Club (given current membership levels and resulting Club income and Club expenses) which shows a loss of $38,742 (line 58). This contrasts with an operating profit of $35,601(line 58) that the Club enjoyed in 2007. The reasons for the negative trend are in the details, but lie in the fact that, in 2007, the Club enjoyed greater income from program members as shown in higher initiation fee, dues and coaching revenue (see #3) along with an overall minor decrease in expenses from 2006, while, in 2009, revenue was lower and general Club expenses continued to increase modestly with the addition of Club employee headcount and increases of various operating costs as discussed above.

Following the Net Income, we present the Extraordinary Additional Expenses (starting at line 59) that the Club has incurred in the indicated periods as well as two known additional extraordinary expenses that will be incurred in 2011 and 2012. The total of the expenses for dock replacement and repair, dredging expenses, truck and trailer purchase are paid for by the Club's unrestricted cash reserves, surplus from Club operations, if any, and/or income generated from the auction and annual campaign. These extraordinary expenses come up over time and, though planned, do not have a specific revenue source other than the Club's unrestricted cash reserves, surplus from Club operations, if any, and contributions.

On line 65 we present the Unrestricted General Contributions the Club received from Auction proceeds and the Annual Campaign. You can see that our Auction has been a great success in the past in helping the Club raise the funds necessary to fund any Club operations losses and cover the costs of extraordinary Club expenses, but the Board must seriously consider whether it can depend on that historical success in connection with the Club's future needs in light of the ongoing levels of cash operations losses.

Line 69 on this presentation is the Depreciation Expense line entry that reflects an accounting presentation of the decrement to the value of the Club assets (i.e. boathouse, dock trucks, trailers and rowing equipment) in the year. While this is not a cash cost, it is a good proxy for costs that will come due in the future to either repair or replace the enumerated items and I would note that it in no way captures something like repeated dredging costs since the channel as a rowable waterway is not a Club asset to depreciate.

Finally, line 70 shows the amount of Unrestricted Cash Reserves ($120,484) in the Club's savings and checking accounts as of June 30, 2010 which is available to cover future operating losses of the Club or to be used in case of extraordinary and/or unexpected costs of replacement or repair of major capital items i.e. building repair, truck, trailer, ramp, dock, etc.

#2 Funds Activity

The next presentation, see tab #2 entitled Funds Activity, shows the Restricted Funds the Club maintains, their use over the past 5 years and their current balances.

The Equipment Fund (line 5) holds the funds raised through the Junior Ergathon (line 1), general equipment fund contributions, the junior and adult dedicated equipment fee (line 2) and proceeds from sold equipment (line 3). This should provide substantial comfort that at least half of the depreciation challenge discussed above (i.e. that pertaining to the rowing equipment since that constitutes about half of the Club's assets) is being well covered, although one needs to recognize that the Ergathon donations are not a certainty and are generated by a mandatory per rower "contribution" (ideally raised from others) of $300 in addition to the $100 equipment dedicated fee charged to the juniors. Thus it is hardly voluntary; it is effectively an added cost of participating in the program which is over and above any costs that the adult rowers bear.

The Endowment Fund (line 6) began from surplus funds that were generated through the Boathouse Construction Campaign and has since seen growth through the generous financial contributions of our members. We are committed to growing this fund for the long-term health of the organization. As this Fund grows the Board will consider how to best utilize it to support the organization.

Lines 7, 8 & 9 show the Junior, Barbey and Adult Scholarship Fund contributions and scholarships granted. The Junior Scholarship Fund is used for athletes of the competitive program, the Barbey Fund is used for junior outreach during the summer months and the Adult Fund is used for adult membership dues support.

#3 2011 Draft Budget

The next presentation, see tab #3 entitled the 2011 Draft Budget, is a draft budget for the Club's cash basis operations in 2011 that includes no increase in current dues or fees for adults or juniors and shows a projected deficit of $34,508. This presentation reinforces the point that the deficit in 2009 was not an isolated outcome but is a reflection of the gap between the relatively stable level of Club income and modestly increasing levels of Club expenses.

#4 Annual Impact of Increases in Dues and Fees

The last presentation, entitled Annual Impact in Dues and Fees, shows what the increase to annual Club income would be of a $5 increase in the monthly amount of adult and junior dues, the adult coaching fee and boat storage fees (an aggregate of $28,755 in increased annual income if all three increases were implemented (line 1)). The presentation also shows what the current level of those dues and fees are and the history of past increases of those dues and fees.

We hope that this helps to give you a good sense of the Club's current financial conditions, the future financial challenges the Club will necessarily face if it does not increase, in some way, the current level of dues and/or fees it charges and the potential impact to Club income of increases in specific dues and fees. These are the matters that the Board is actively considering in deciding what steps need to be taken next.

We welcome your participation at the meeting this Monday evening or any questions or comments that you may have with respect to the above and the attached presentations. Any questions prior to the meeting can be directed to Sandy Armstrong (sandy@marinrowing.org) or Bill Hudson (whud52@yahoo.com). As a reminder, the Board will not be voting on any increase at Monday's meeting. The discussion and vote on any increase will be on the agenda for the Board's August 16th meeting.